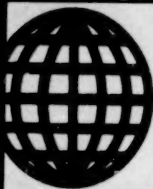


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4 MARCH 1989



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# ***JPRS Report***

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## **East Europe**

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# East Europe

JPRS-EER-89-032

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24 MARCH 1989

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## HUNGARY

### **Brezhnev Blamed for Thwarting 1968 Reforms**

18070508 Moscow LITERATURNAYA GAZETA  
in Russian No 3, 18 Jan 89 p 11

[Excerpt of article by Aleksandr Levikov: "Hungary's Actions: Their Effect on the Socialist Market"]

[Excerpt] The conversation hardly turns to our economy—how did we get to such a life and where to go from here?—and, without fail, we recall Hungary: "Why get into a frenzy? The Hungarians have already beat their heads up against the wall....We should have their crisis! Everything they have is very expensive, but they have everything, and we have..." We have been watching the Hungarians for 2 decades now; some with hope, others apprehension.

The Hungarians began reforms 3 years after we did, in 1968, but by 1972, when they were just beginning to acquire a taste for it, we had already fizzled out. The press, snarling, severely criticized the oppressive regulations, which deprived enterprises of rights granted earlier, and Hungary's experience was a straw on the water for us. But articles evoked increasing dissatisfaction; the authors were straightened out, and editors "were not advised." In the 1980's, rumors of economic difficulties began spreading from Budapest, and the controversies took on a special meaning—they coincided with our next reform, which was taking place in a crisis situation. One would think no one would be concerned with Hungary—we had a hole in our budget, inflation and a monster deficit which was devouring everything that it could lick off the counter and get hold of from under it with its teeth. And how do we get out of this? The Hungarian way? "But the Hungarians have reached a deadlock with their market! ...But maybe they didn't reach the market?"

Was there an apprentice?

I will start with the testimony of Jenő Fock. The former Politburo member who headed the Hungarian People's Republic (HPR) Council of Ministers until 1975 recalls his conversation with Brezhnev in 1972: "For 2 hours he questioned me: Just what were our reforms? He lavished praise on our system and our methods. But from others, I heard: Brezhnev is full of distrust and suspicion. Afterward, he even confirmed this in the presence of certain members of our Politburo. There were those among them who stood up for me, but in the end it became clear that we had to end our reforms.... For 5 years we made progress, acquired and gave new hope. Probably, having realized this, the party did not hide away the idea of reform. This idea was not buried. It was not stated in a single resolution that reform was being repealed. But we ended it in 1972."

During those years, Rezso Nyers, secretary of the Central Committee and Politburo member, who in this country is called "the father of reform," was also forced to retire. One of the top-level officials in Budapest told me without beating around the bush: "Leonid Ilich [Brezhnev] arrived and advised Kadar to part company with him." Nyers himself was more careful: "We were not arguing with Kadar then." Lajos Feher also left the Politburo....The energy of the reform movement was shut off....No, they did not attain a market economy in 1972, and it was not attained even 10 years later, but now they are directed toward it. And Nyers is once again in the Politburo. His book "Quests and Reforms" recently came out in Budapest.

"What differentiates previous disagreements from the current ones? Those that Karoly Grosz, general secretary of the Hungarian Socialist Workers Party, acknowledged in one of his interviews?

"The question then was: Do we open up the Hungarian economy towards a world economy or not?" says Rezso Nyers, autographing his book to me. "They still argued: Do we need to adapt ourselves to the economic model which existed in the USSR and to the Soviet policies of those years? If it were not for your perestroika, the forces in our party that opposed us at that time would probably have remained. Today, the leadership is united on political issues, and disagreements are of a tactical nature. We need to tear ourselves away from obsolete approaches.

"But 'the one torn away' often hears frightened voices advising, in the name of order, to turn back....

"For reactionaries, 'order' is the absence of discussion and mental ferment. One cannot say that there are no arguments in favor of such 'order.' But only this path leads nowhere. Now a serious problem has emerged both for party circles and the intelligentsia: We are refuting the old values, but the new ones have not yet come into existence. Expectations, misgivings, feelings... But I agree with those who accept this uncertainty. It will create new values. Other notions of socialism are needed. That intellectual and spiritual front which firmly believes in the path we have chosen has still not been created in Hungary. However, the opponents of reform also do not have a solid front, and I hope they will not get one..." [passage omitted]

### **Szuross Examines Soviet Ties: Past Mistakes, New Beginning**

25000134 Budapest MAGYAR NEMZET in Hungarian  
4 Mar 89 p 6

[Article by MSZMP CC (Central Committee) Foreign Affairs Secretary Dr Matyas Szuros: "Purifying Friendship—Renewing Cooperation"]

[Text] Hungary is in a feverish state of mind insofar as domestic politics are concerned. As a result of accelerated changes, events and turnarounds, the life of Hungarian society is akin to a disturbed beehive. It is fitting

to say that a peculiar kind of "emotional democracy" has evolved in Hungary; emotions have acquired a magnified role, and individual viewpoints also gained strength. Under such circumstances and in such an atmosphere one can see that the senses of responsibility and of reality are not strong enough, or have not sufficiently developed, even though there is an increasing need for consciousness and foresight. New and great things are forthcoming from this complex, struggling and laboring medium, while the system as a whole reforms itself.

### Always Present

Despite the extraordinary complexity of the situation, the processes are manageable and the economic and political stability of the country can be maintained. It can, if we do not hesitate to build consistently and with circumspection on the load bearing pillars, and if we are clear and firm in regard to important issues. One of the issues whose review is very timely and necessary pertains to our ties to the Soviet Union. It is inappropriate to dismiss ["forget about"] these ties even at times when based on recent realities and our national interest we endeavor to establish a balanced foreign policy by trying to build a diverse, balanced relationships with the West.

What does it mean to a small country like ours that our neighbor, the Soviet Union is a world power? A recall of World War II almost a half a century ago, and a superficial glance at the history of Hungarian-Soviet relations reveals that even though our relations had their ups and downs, they were always decisive and existentially important to Hungary, particularly in times of historic change. Whether explicitly or implied, the Soviet Union always played a role in Hungarian events. Moreover, whether on stage or behind the scenes, the Soviet Union was the lead actor on our small stage in world [affairs].

The Soviet Union tried to keep Hungary out of World War II. It brought immeasurable calamity upon our nation. Staying out of the war would have served the interests of both parties. The lesson learned still holds: the anti-Soviet attitude, the ideological blindness of the then ruling elite stopped its members from reaching out their hands to this natural ally, the other country that suffered a loss as a result of the Versailles treaties. The opposite took place: Horthy's Hungarian troops took part in the military campaign against the Soviet Union which lead to collapse. The Soviet army played a decisive role in liberating Hungary from under German occupation and the rule of the Arrow Cross movement. The war destroyed Hungary, but liberation made possible the liquidation of the most backward, most impoverished feudalistic-capitalistic system, and the establishment of a people's democratic system, which continues to be one of the most significant, most lasting values in four decades of postwar Hungarian history. With this deed, with this support the Soviet Union has earned everlasting credit in the history of the Hungarian people.

It was in those days that respect and friendly feelings began to evolve toward the Soviet Union and that we began to lay foundations for our friendship.

### Szekfu's View

At the same time the stunning sense of a "new neighborhood" was well conveyed by Gyula Szekfu when, in 1947, he had this to say in "After the Revolt": "...in the place of a territory loosely related to Czechoslovakia, which was neglected by Prague precisely because of its loose relationship, and in the place of a fragment of a nation supported by no one, the Soviet Union suddenly appeared, [a country] which occupies one-sixth of the globe, and whose power organization cannot be compared to anything that existed in the medieval or the modern age. Barely numbering 10 million people, the Hungarian nation acquired the huge, 200 million Slavic nation as its neighbor." Szekfu's infinitely sober conclusion reads as follows: "Doubtless, all our earlier perceptions, which failed to take into consideration the neighboring Soviet Union, became moot and impossible....All along we believed that Chieftain Arpad settled our people in the West, separating us from the Eastern people among whom we grew up and became an independent nation; by now we know that this recognition holds only a relative truth: Eurasia has caught up with us once again...." He continued: "A relationship with the Soviet Union—as close and as sincere as possible—would be desirable, beyond what is mandated by the terms of the peace treaty. This is so because, after all, this great neighbor naturally supplements our economy. Defended by, and in becoming part of the Soviet Union's peace system we can achieve both our internal and external balance we have been lacking for so long, as well as the harmony which some day will come about between man and man, nation and nation, small country and large country."

The issues surrounding the 1947 Paris Peace Treaty require separate historical analysis. Then, after 1948 there came the period of copying, the forcing of the Stalinist model on Hungary, together with all of its consequences. The gravity of this was only increased by the extreme policies of Rakosi. Relationships did not evolve in the spirit of equal rights and mutual advantage, serious wounds were afflicted upon Soviet friendship abrogated by an increasingly narrow leadership group. By 1956 the process turned into overt anti-Soviet attitudes, while many remained sincere friends of the Soviet Union. It was primarily as a result of the popular uprising that the Soviet Union among other matters emphatically stated on 30 October 1956 that "in its relationship with the rest of the socialist countries the Soviet Union must consistently enforce the principle of equal rights of nations, and must take into consideration the peculiar [features] and historic past of each nation." This reflected the spirit of the CPSU 20th Congress. Most certainly the role the Soviet Union played in the Hungarian events of 1956 will be analyzed jointly by Hungarian and Soviet historians. It should suffice to



mention here that already at that time the crisis of the stalinist formation of existing socialism in Hungary surfaced with the force of the elements. This was not recognized in those days of course either by the Hungarian or by the Soviet leadership, and [consequently] the evolution of our relations reflected this lack of recognition.

### The Brezhnev Doctrine

In the aftermath of 1956 the Hungarian leadership made attempts to permit the development of relations in the spirit of the above mentioned governmental statement, so that our friendship could increasingly become the friendship of broad strata of people, a relationship of good neighbors. Progress and an approach were made in this regard toward the recognition of realities. Nevertheless one-sidedness remained a feature of the relationship, moreover, the Brezhnev doctrine introduced some new deformations into the relationship. The perspectives of a great power on the one hand, and the elements of being "subdued," or servility on the other were introduced. Adherence to certain dogmas played a role until the middle 1980's. Fundamentally, the Hungarian reform process came to a halt because the Soviet Union, and the socialist world in general viewed [our reform] with a strong sense of hostility and with reservations. The contradictory nature of the Brezhnev age is well reflected in the fact that only a few years passed between two diametrically opposite events. One is the Helsinki Closing Document, the other is the invasion of Afghanistan.

Accordingly, in Hungarian minds defeat and liberation, the horrible wartime devastation and catching a breath of fresh air, the soldier who distributed bread and the victor seeking satisfaction are closely tied together. [The Soviet Union appears] simultaneously as the magnanimous and grandiose supporter and as the power which deports tens of thousands to perform forced labor, as the political puppeteer who selects Hungarian cabinets and party leaders in Moscow, or as the [power which] quells an uprising, and as the internationalist who comes to the rescue of socialism—depending on one's experiential viewpoint. What does the Soviet Union mean to us? Is the Soviet Union the guaranty for rising to the level of socialism, is it a market for our products, the secure source for raw materials, or is it a giant which demands that our development goes hand in hand with its own, and which hamstring Hungary? Or is it perhaps both? To use King Istvan Bathory's restless words: "Now is the time to find a way for survival." Now, when we must penetrate to the roots to find new ideas for progress, now when we must topple all the [earlier] taboos, now, when we must also weigh with strict objectivity our relationship with the Soviet Union—a world power—while preserving what constitutes value, and sweeping away the fossils that became deposited.

The reasons for the emotions, extremes and unclear matters involved in judging the Soviet Union cannot be found solely in the contradictions of the past 40 years or

so. Hungary was indeed unprepared for the sudden emergence of a world power as its neighbor. Our consciousness did not recognize the nearness of the Soviet Union, our great personalities always thought in terms of Europe. The West presented the standard and the direction to be followed. Following some exchanges during the Middle Ages, the warning given in 1849 is recalled only a passing episode. The proximity of Russia did not become part of our consciousness. Count Istvan Bethlen's thoughts concerning the expected peace system provide a stunning reading today. He was one of the most clear-sighted politicians. He jotted down his ideas while hiding from the German occupation army. Reading his words one gets the impression that the British and the American troops, rather than the Soviet troops were at our borders! In his mind the Soviet Union did not even exist.

The comprehensive and objective rethinking of Hungarian-Soviet relations however, does not flow from our disturbed national consciousness. It is demanded by reality. Bruno Kreisky's idea that "vision is also needed in order to be engaged in politics" is correct, nevertheless in foreign policy, in the formulation of international relations the least amount of ideological vision is needed. One must start out from realities, while keeping mutual interests in mind.

### Preserved Structure

In the midst of the accelerated changes which evolved in Hungary, in the Soviet Union, in Europe and throughout the world, the tensions of contradictions between the new circumstances and the old forms and content of cooperation were increasingly felt by Hungarian society and by the political sphere. We must face the fact that several elements of our relationship have become fossilized. This applies primarily to the economy.

Economic cooperation is one of the most essential elements of Hungarian-Soviet relations. Trading with the Soviet Union amounts to almost one-third of Hungarian foreign trade. A significant part of this trade is accounted for in dollars. Until the late 1970's Hungarian-Soviet economic cooperation contributed to our economic growth. Following the first oil price explosion however, our exchange rates severely deteriorated, and we were able to offset the rapid price increase of petroleum products only by forcibly increasing our exports. At the same time we became increasingly dependent on participation in Soviet energy resource explorations. Doubtless, all this expanded our trade relations, moreover it also resulted in economic growth. Cooperation, however, also served to preserve Hungary's economic structure because it seemed that the Soviet market was willing and able to absorb all Hungarian products.

At the same time however, the virtually precapitalistic form of production and trade which became the standard in Hungary and which continues to thrive, did not

enhance either the Soviet Union's or Hungary's development in an age when production assumes an international scope, and when corporate cooperation in terms of capital flow, information exchange and workforce mobility transcends national borders.

The 1980's proved that this method, and these means of cooperation closely tied to the CEMA mechanism were outmoded, and were not suited for the conveyance of forced structural change. In the past two or three years, favorable shifts in exchange rates created a Hungarian trade surplus, which our Soviet partners were unable to offset with goods needed by the Hungarian economy. Under such circumstances the narrowing of bilateral economic and trade cooperation appears as unavoidable.

### A Real Market

At the same time the Hungarian economy has some real interest in cooperating with the Soviet Union. Such cooperation, however, must be based on economic advantages, and the political ties to the same system of alliance must be clearly separated from the enforcement of economic interests. The Hungarian economy needs good quality Soviet raw and base materials, as well as energy resources. On the other hand, the Soviet Union continues to constitute a significant market for Hungarian enterprises. We cannot realistically count on increased trade until the middle 1990's, it is in our interest to elevate our relations to new levels of quality. A good basis for this is provided by the fact that the leadership of both countries thinks about reform in similar terms, and about the need for economic and political renewal.

We interpret the qualitative and substantive renewal of our system of relations as a need to create real market conditions, and a need to strengthen direct interenterprise relationships. The deepening of Hungarian-Soviet relations may be enhanced by establishing direct partnerships with member republics, such as those in the Baltic region.

In terms of political relations we have long ago transcended in time the situation in which our domestic and international actions were judged by ideological criteria. Despite numerous declarations of principle, such judgments were always accompanied by demands to account for our own actions, and an unease about something that was different and therefore incomprehensible or wrong. The view according to which the alliance system reflected the relationships of a superior and a subordinate was also transcended in time, and so was the appearance of unavoidable military inequality in our political alliance, and the full acceptance of the stronger party's view of the world and of security. The old framework became increasingly narrow.

As a result of the changed circumstances, transformation of our relationship began already in the early part of this decade. It became apparent that the earlier position

taken by Hungarians who opposed reform and enjoyed the effective support of the allies cast Hungary in a difficult situation. (And whether the domestic forces or foreign support weighed heavier in this respect is not revealed in the report of the "historical subcommittee." Yet another taboo to be toppled!) Certain reform measures could be no longer delayed, even if such steps would have evoked adverse reactions in Moscow or in other socialist capitals.

The sharpening of international tensions, which in part was prompted by Soviet policies in the period of stagnation, violated our national interests. Therefore we could not accept the old interpretation of the fidelity of allies, meaning the unconditional support of Soviet actions, such as the Afghanistan expedition. Our aggravated economic concerns prompted the Hungarian leadership to take certain steps to which the socialist world was not accustomed to: Hungary joined the International Monetary Fund and the World Bank. All these brought pressure on the old framework, but did not break that framework.

### In the Same Direction

The opportunity for evolution and qualitative change emerged as a result of the Soviet transformation or perestroika. This amounted to no less than the movement of our societies in the same direction. Not in an identical manner, not at the same pace, period and depth, but only in the same direction. In this regard no less took place than a change in Hungary's status from "deviant," to a country pioneering the most significant trend in socialist development. Virtually overnight all ideological and political reservations came to an end, at least insofar as the highest Soviet leadership circles were concerned.

This is a fundamental change, but one which nevertheless does not mean an automatic change in every field. It does not mean, for instance, an instant and self-explanatory renewal of, and upswing in our cooperation. The Soviet Union itself is struggling with severe resource shortages. In such cases the understanding of a partner's situation is not, and cannot be an appropriate standpoint; each partner must follow the path which best serves his economic interests. The change is reflected in the fact that a partner—thus Hungary, too—may pursue his own interests, and as a result will not evoke adverse political or ideological feelings, not to mention pressure. We thus became equals in terms of economic relations, because economic relations can be motivated only by mutual interests. And it is of the essence that interests can be represented, reconciled and enforced on a mutual basis. (An example for this is the relationship between Finland and the Soviet Union, the two countries having different sizes and different social organization.)

### Foreign Policy Sphere of Action

The content and form of political cooperation, and above all, cooperation in foreign policy also underwent a significant change. The Soviet Union itself requires and

stimulates the manifestation of independent initiatives by its allies. The dominant enforcement of Soviet security considerations has ceased. [It was replaced by] the recognition and conscious practical representation of the primacy of the interests of humanity. This ensures an appropriate foreign policy sphere of action to each country, provided that such action tends toward a truly democratic and cooperative form of international order. Hungarian foreign policy took advantage of this increased sphere for action. This can be seen in the active and diverse role Hungary has played in regard to the nationalities issue, our acceptance of responsibility for Hungarians residing beyond our borders, our role as catalysts in arms limitation and in disarmament, as well as in the expansion of bilateral relations with Israel and South Korea. Most likely all this could not have been accomplished in the absence of a new Soviet foreign policy approach, or if it could, it would have been accomplished only at the cost of significant conflict and tension.

Taken as a whole, the changes transform the framework and the content of Hungarian-Soviet relations. It must be stated repeatedly, however, that these changes are not automatic, as they cannot come automatically. They require conscious attention and action by both parties. The starting point can be none other than the principles which govern relations between states; the 10 principles enumerated in the Helsinki Closing Document. That document was signed by both the Soviet Union and Hungary, as well as by the rest of the socialist countries except Albania. It contains a clear commitment to recognize full equality among the signatory states, sovereignty and the requirement for noninterference in the internal affairs [of others], moreover the obligation to respect human rights. On its way to renew and to reform socialism, each nation must travel its own path and must mold its own image. This is increasingly recognized by both Hungary and the Soviet Union in the course of developing our relationship, and this increases mutual understanding among our respective people.

Since we are dealing with two countries which have identical social systems and belong to the same system of alliance, it is natural that the above principles will be supplemented by further mutual obligations. Thus, in addition to endeavoring to achieve a proper, reliable and predictable relationship, the criterion of belonging to the same alliance also prevails. Regarding the latter, and in particular as a result of the different practice followed in earlier periods, the requirement of mutuality will acquire special significance. It is within this diverse process that our friendship can be purified, and our cooperation can be renewed.

#### **A Relationship of Trustworthy Good Neighbors**

All of the above constitutes only nice principles and statements unless they remain mere declarations in the absence of appropriate practice. Are there any assurances that these principles will prevail? The ongoing

processes in our countries, the identical trend of our respective developments, our identical long-term objectives provide a certain kind of guaranty, but these cannot be viewed as automatic or as perpetually valid either. This is why it is useful to turn the question around: is it in either party's interest to violate these principles, and not to abide by the norms. Quite naturally, in the short run, in certain fields such situations may be conceivable, but in the long term, viewing the relationship as a whole it is clear that violating these principles would be in neither party's interest. Such violations would be damaging rather than advantageous. Yes, there are assurances for the practical implementation of the principles which set the framework for these relations.

One matter must be recognized by all means however, and this cannot be sufficiently stressed. We must always observe the fact that Hungary and the Soviet Union have equal rights, but the two countries do not hold equal ranks. Our relationship will never become that of equals, it will always remain a relationship between a small country and a world power. Let us once again recall Gyula Szekfu's words of 1947: "The sole possible conclusion is none other than the fact that we must candidly accept the situation and find a way of conduct by which we can gain our neighbor's confidence. Having done so, [we must endeavor] to ensure Hungary's peaceful development under the new, and in my view unchanged situation." However regretful it may be, our lack of trust in the Soviet Union will have no particular significance in the end, as long as we do not draw the wrong conclusions in regard to the relationship. On the other hand, if the Soviet Union has no confidence in us, we endanger our country's free and peaceful development. We must consider this matter in the present complicated situation of Hungary, and we must consistently provide for the maintenance of friendship and a trusted neighbor relationship, because this will remain one of the pillars of our prosperity also in the future.

#### **Primate Views Church-State Relations, Church Strength in Hungary**

26000288 Warsaw ZYCIE WARSZAWY in Polish  
7-8 Jan 89 pp 1, 7

[Interview with Cardinal Laszlo Paskai, primate of Hungary, by Grzegorz Lubczyk, special correspondent: "There Is Only One Fatherland"; in Esztergom; date of interview not given; first two paragraphs are ZYCIE WARSZAWY introduction]

[Text] In Esztergom, that most northerly city of the lovely Danube bend, you fittingly come upon the history of Hungary with every step you take. Here on a dominating height, Prince Geza, father of the Stephen who was the first king of Hungary, began to build a castle that, systematically expanded, was for some centuries among the chief seats of the Hungarian rulers. The stormy medieval centuries saw the castle covered with earth. Almost next door to these royal ruins, there rose between 1822 and 1869 a basilica whose dimensions are



exceeded only by those of St. Peter's in Rome. The primatial palace, more than 100 years old, stands a few dozen meters below the imposing church, almost on the banks of the Danube. I was invited to the palace by its master, Cardinal Laszlo Paskai, head of the Hungarian Catholic Church.

The primate's secretary greeted me at the door, led me into the cardinal's study filled with books and papers, and disappeared without a trace. It was eerily quiet until the cardinal's first few comments restored a pleasant, everyday feeling. I turned on my tape recorder.

#### On Himself

[ZYCIE WARSZAWY] What was your first thought when you were named primate of Hungary?

[Cardinal Paskai] It was the same as that 10 years earlier when I was named a bishop. I accepted the nomination in obedience to the Holy Father. It always has been a difficult task to serve as a bishop. That is especially true today. The discipline of serving the church requires that I accept the responsibilities given to me and that I carry them out to the best of my ability.

[ZYCIE WARSZAWY] What was the first decision you made after you occupied this historic primatial seat?

[Cardinal Paskai] There was not especially any decision to be made. I came with the intention of continuing the work of my predecessors. I am concentrating on pastoral work leading to the renewal of the Hungarian Church, which ought to become a more functional organism.

[ZYCIE WARSZAWY] What do you mean by that?

[Cardinal Paskai] During the 1950's, our church lost much of its organizational superstructure. I would like to restore certain elements like the freedom of association on a religious basis and the capability to publish new titles for the Catholic press.

[ZYCIE WARSZAWY] The work of your predecessor, Cardinal Laszlo Lekai, was guided by the idea that "the pruned tree renews itself." What is Your Eminence's motto?

[Cardinal Paskai] Mottoes are an old archiepiscopal custom. I chose "In virtute spiritus" or "In the power of the Spirit" from the Gospel of St. Luke.

[ZYCIE WARSZAWY] And what people have you chosen for your models and why?

[Cardinal Paskai] Among many, I would mention one: Cardinal Pazmany, archbishop of Esztergom. A great theologian and pastor and eminent Hungarian linguist. In an age when people were pulling away from the faith, he managed to reconvert them. In addition, he was the main organizer of our religious life in the period of the

Turkish enslavement. I became the archbishop while the 350th anniversary of his death was being commemorated, and so, I made my first pilgrimage as archbishop to his tomb in present-day Bratislava.

[ZYCIE WARSZAWY] Please tell the readers of ZYCIE WARSZAWY more about yourself.

[Cardinal Paskai] I was born 61 years ago in Szeged. I received my high school diploma in 1945 at the Piarist High School in Szeged and I entered the Franciscan Order. I was ordained in 1951 and received my doctorate in theology a year later. From 1955 onward, I taught philosophy in seminaries, first in Szeged, later in Budapest. In 1965 I was named full professor of philosophy. In 1972, I was named rector of the seminary. In 1978, Pope Paul VI named me bishop of Veszprem; in 1982, I became coadjutor to the archbishop of Kalocsa.

Since the death of Cardinal Lekai last year, I have been the archbishop of Esztergom and, according to custom, primate of Hungary. On 8 July 1988, Pope John Paul II made me a cardinal during a ceremony in Rome.

I have always loved natural sciences and philosophy, but since coming to Esztergom, I have given up my personal interests. There is so much work! In the course of these several months I have not even had the time for a long stroll through the gardens of the primatial palace.

#### On Church-State Relations

[ZYCIE WARSZAWY] How would you portray briefly the road of the Hungarian Catholic Church since World War II?

[Cardinal Paskai] In the initial phase, there were serious strains between the church and the state, especially during the period of Rakosi. At that time, churches were considered a hindrance to progress. The natural demise of their functions was anticipated and that demise was to be speeded up by administrative methods. For our church, the most difficult year was 1956.

It was only at the end of the 1950's that there was a lessening of strains and a slow beginning of a normalizing process. In 1964, the Hungarian People's Republic and the Vatican reached a partial agreement that permitted the filling of episcopal vacancies. And yet it took 12 more years before the Church hierarchy was fully restored. The naming of Father Lekai as archbishop of Esztergom in 1976 opened a new stage of church-state relations, as it were.

Seen from a historical perspective, initial strains and misunderstanding have been replaced by the current positive role of the churches. The churches have become an organic part of society and, moreover, society counts on our working for it. Likewise, the various reevaluations taking place now in Hungary will also improve the atmosphere of mutual relations.



[ZYCIE WARSZAWY] What accounts for the fact that relations between the Hungarian state and church can be defined even as model relations today?

[Cardinal Paskai] That was brought about by dialogue which proved to be the sole effective road to normalization. Without patience and the mutual understanding about interests, we would not have reached the current situation.

[ZYCIE WARSZAWY] Can one find any kind of unique Hungarian prescription in the achievement of an understanding?

[Cardinal Paskai] If, by that prescription, one means a consistent implementation of a dialogue model, then yes. For some observers abroad, a model of conflict would seem more attractive. Under our conditions, a solution through conflict was neither possible nor appropriate. That is exactly why dialogue absolutely must be continued.

[ZYCIE WARSZAWY] The last MSZMP congress resolved that "cooperation between the state and the church is based on a sense of responsibility for the fate of the fatherland." How do you understand this, Your Eminence?

[Cardinal Paskai] Every legally governed state is obliged to satisfy the basic needs of its citizens. The need for faith plays an important role among these needs. This facilitates the calming of emotions and the development of social life. In this sense, the "sense of responsibility for the fate of the fatherland" mentioned earlier corresponds to my way of thinking as well.

[ZYCIE WARSZAWY] In the December 1987 report of the State Office of Religious Affairs, I came upon the assertion that "churches and believers have found their place in socialist society." Do you subscribe to this statement, Your Eminence?

[Cardinal Paskai] The 2,000-year history of the Church furnishes evidence that the Church has fulfilled its mission under various social systems. The dialogue mentioned earlier formulated principles based on which communities of believers are in a position to implement their goals under today's realities. The process is an ongoing one and today's principles of cooperation may be unequal to tomorrow's needs.

[ZYCIE WARSZAWY] While Cardinal Lekai was working to normalize relations with the state, here and there accusations were made that the Hungarian Catholic Church was beholden to the socialist authorities. Are those kinds of accusations still voiced today?

[Cardinal Paskai] Such charges were made beginning right after liberation. They arose from the many tensions in the air then, and were primarily made abroad, under very different conditions and from a different point of

view. As far as I am acquainted with this matter, today as well whenever there is an improvement in relations with the state, there is an immediate raising of voices disapproving of me as well.

[ZYCIE WARSZAWY] Janos Berecz stated at last year's parliamentary session devoted to church-state relations that they are based on mutual tolerance and constant dialogue. Karoly Grosz has already met with the heads of the Hungarian churches, declaring himself willing to cooperate. Therefore the climate for improving relations must be good.

[Cardinal Paskai] Yes, that is true. And we ourselves will take advantage of this favorable atmosphere since much remains to be done that is of benefit to both sides. The authorities no longer fear expanding the field of operation open to the Church. It is in this same spirit that we are working on a draft of a new law on churches. This does not mean that we do not argue, discuss or try to win each other over. The new always comes into being in pain.

[ZYCIE WARSZAWY] Many Hungarians live outside the borders of Hungary. How does the Catholic Church treat emigrants?

[Cardinal Paskai] One-third of the Hungarian population does not live within today's borders. A very large percentage of this third is found in Slovakia, Romania, Austria and Yugoslavia, i.e., on those lands that belonged to Hungary prior to World War I.

Our countrymen living in Romania are in the worst situation. The Romanian program of so-called systematization threatens to cut off tens of thousands of Hungarians—and other nationalities as well—from their native soil of the Seven Cities and menaces them with the liquidation of their church buildings. Can one remain objective in the face of such measures, especially since according to the official data, more than 18,000 Hungarians from the Seven Cities have found asylum in Hungary?

Many emigrants live in Western countries. Some went there before the war to earn a living while others left for political reasons in 1956. These are quick to be suspicious about the stance of the Hungarian Church hierarchy. However, their criticism has abated somewhat recently.

This September I visited Hungarians living in Canada. They welcomed me warmly. The churches were filled on weekdays in a communal celebration of the 950th anniversary of the death of St. Stephen the King. In October, 1,500 people made a pilgrimage to Rome: 50 percent were Hungarians holding Hungarian passports and another 50 percent represented the Hungarian emigration. We prayed together and we were received jointly in an audience with the pope.

I believe that we will solidify these contacts. History shows us that the Church is able to effectively focus consciousness and national roots. Emigration is never a positive thing, but when it happens it is our obligation to help our countrymen.

#### On the Domestic Situation of the Church

[ZYCIE WARSZAWY] Let us discuss the internal situation of the Hungarian Church. Prof. Lukacs, in his book "Religia i religijność w dzisiejszych Węgrzech" [Religion and Religiosity in Today's Hungary], writes that from 10-20 percent of Catholics participate in Sunday Mass, in Budapest 10-12 percent of newborns are baptized, among young people ages 15 to 24, less than 0.87 percent had any contact with the Church in 1983 and the number of vocations to the priesthood is minimal. What is your reaction to this?

[Cardinal Paskai] We are not conducting this sort of detailed research. Besides, it is difficult to express religious life in figures. Secularization is a worldwide phenomenon and Hungary is no exception in this regard. While there has been a decline in religious practice, the faithful today are believers out of conviction. Having religious convictions yields no extra privileges today; what's more, 12 or so years ago it brought only negative consequences. Despite this, many people kept the faith.

The statistic of 0.87 percent of young people most likely refers to the contact of organized groups with the Church. While the number of vocations to the priesthood has suffered a decline, the average age of the clergy has increased, creating serious problems for our bishops. We are initiating many activities to increase the involvement of lay people in pastoral work. This coincides with the process of renewal in the Church. I am pleased with the growing interest of young people in the Bible. Theology courses are very well attended both in Budapest and in several other countries. Thus, despite our many concerns, we are also witnessing growth phenomena.

For example, during the celebration of Saint Stephen's 950th anniversary, a relic in the form of his Holy Right Hand traveled to all the dioceses and to the basilica at Pannonhalma. Now that the many festivities are over I estimate that almost 1 million of the faithful came out to view this special national and religious relic in our churches. Does this not point to a renewal?

[ZYCIE WARSZAWY] Being familiar with Hungarian life, I am not surprised that the Episcopate, under the direction of Your Eminence, has announced a program of the "family pastorate."

[Cardinal Paskai] Yes. Many crises and troubles afflict the Hungarian family. There is a very high divorce and abortion rate and many young people live together without official ties. This leads to serious social problems, including the overcrowding of child care facilities. Unfortunately, such an atmosphere has a negative

impact on Catholics as well. For this reason, the family pastorate program seeks to prepare young people for family life according to a Catholic role model, to work with young couples and to create communities of young couples for the purpose of mutual self-help and taking on the care of children from broken homes. The communities of young couples have already formed in many places. Associations of Catholic families with large numbers of children are also arising. Briefly, these are the plans of the Episcopate in the area of work with families.

[ZYCIE WARSZAWY] In implementing this program, do you likewise plan to include an invitation to John Paul II to visit Hungary?

[Cardinal Paskai] The Hungarian faithful have always been great supporters of the Polish pope. This was shown by the large number of Hungarians present during a recent visit of the Holy Father to Austria. Approximately 50,000 Hungarians made the pilgrimage. At the Vatican, the pope greets the guests in Hungarian at every third or fourth audience. The social movement we are witnessing in Hungary was really taken up by the authorities who, wishing to reconcile with the faithful, proposed that an official invitation be given to John Paul II to visit our country. And, as you know, the invitation was accepted.

I am convinced that the Holy Father's visit and the preparations leading up to it will have a positive impact on the renewal of the life of Hungarian Catholics.

#### On the International Situation

[ZYCIE WARSZAWY] Is Poland closer to Hungary because of the present pope?

[Cardinal Paskai] The friendship between the Hungarians and the Poles has lasted for centuries. Whenever I have contact with the Holy Father, he always touches upon the theme of our traditionally friendly relations, pointing out our historical figures and saints held in common. And pointing out one way in which we have not had contact, the pope says that there has never been war between our countries!

One expression of this friendship was the sincerity with which Hungarian society received thousands of Polish refugees, military and civilian, following the outbreak of World War II. Next year celebrates 50 years since that most terrible war. Anniversary celebrations will take place in Balatonboglár, where a famous Polish high school existed, and in cities where Poles stayed, many exhibits will be open. The Hungarian Church is taking part in these festivities.

Poland is a country dear to my heart. How well I remember the picture of the Polish refugees from 50 years ago. I have a great deal of respect for the Polish Church, and direct contact between the two Episcopates

has increased recently. The presence of Cardinal Glemp at the Budapest celebration honoring St. Stephen gave me tremendous satisfaction.

[ZYCIE WARSZAWY] We have reached a time of dialogue and understanding. Thanks to persistent talks and negotiations, there is a rapprochement of positions, and not only in state-church relations. My editorial office is publishing a cycle of publications entitled "Europa 2000." In the opinion of Your Eminence, what is awaiting us, how will the Old Continent look tomorrow?

[Cardinal Paskai] Surely you noticed that the pope continually repeats the idea that European culture is one whole. I believe that as passions cool, the conviction of belonging to one Europe will grow.

But it is not only a question of our continent. The leaders of the greatest world powers have shown much good will of late. That is heartening.

I have always been an optimist by nature. For this reason I believe that the pope's efforts calling for peace and unity will not prove futile. For example, for 20 years, beginning with Paul VI, on 1 January each year, every Holy Father has made an address calling for peace to all the inhabitants of the world. The travels of John Paul II make a tremendous contribution toward implementing the splendid idea of world consensus.

Many obstacles are yet to be overcome, but the political situation is aimed in a healthy direction. And so we have returned to a dialogue that is generally yielding good fruit.

[ZYCIE WARSZAWY] I thank Your Eminence very much for the interview.

## POLAND

**POLITYKA Weekly News Roundup**  
26000322b Warsaw *POLITYKA* in Polish  
No 6, 11 Feb 89 p 2

[Excerpts]

### National News

[Passage omitted] The Third All-Polish Theoretical and Ideological Conference lasted three days. The first discussant, Wojciech Jaruzelski, said in his speech: "As usual in history, extremes meet. The first, in spite of obvious facts, continues to maintain that socialism is incapable of reform. The second, defending itself from reform, willingly or unwillingly, confirms this thesis. Our party decisively rejects both of these extremes. It thinks, moreover, that further consideration of the unabridged truth of past experiences is essential." [passage omitted]

The Sejm has approved the plan to consolidate the national economy for 1989-90 announced by the government of Premier M.F. Rakowski. The body adopted seven laws, including one on the financial management of state enterprises. For the first time, Prof Ewa Letowska, Citizens' Rights Ombudsman, appeared before the Sejm and presented the fruits of her year of work. Among the cases which were reported to the ombudsman during this period, approximately one-fourth are complaints about the administration of justice; one-fourth, about social issues, retirements, social benefits ("The overly objective awareness of those who complain, accepting their position as a passive object of someone else's favor and not as the subject of their own rights, is depressing."); one-fifth of all cases concern housing. The Sejm received Prof Letowska's comments with long applause, expressed its appreciation and recognition for the first year of work to her. Among the interpellations of the deputies, one concerned the rolling stock of the railroad. At present about 60 percent of the rolling stock is being produced of a few years ago; the Polish State Railways will be forced to lease foreign cars and import "at levels not previously noted." This industry is being considered for limitation or stabilization of production. Minister Wilczek has presented the government's plans in this case.

The Supreme Court in a seven member configuration stated in response to a question from an appeals court that the name of a plant union organization in addition to indicating the plant, industrial branch, type of employment or occupation of the organized workers can also contain additional phrases, for example, the word Solidarity. The resolution of the Supreme Court has the force of law which is binding on all courts henceforth.

At a meeting with the heads of enterprises, Premier M.F. Rakowski stated: "We will stand like a wall behind good directors, support them in every case, whenever they are right." [passage omitted]

The Fiat Tipo is to appear on the Polish market, for convertible currency in any case. For example, a model with a high-compression engine with a displacement of 1700 cm<sup>3</sup> is to cost \$8,800. At speeds of 90 km/hr it uses 4 liters of diesel fuel. The Lancia Thema is also to be available, but only for individual orders for the price is \$15,000 to \$16,000.

Earnings in Warsaw. In 1988, the average monthly wage in the capital city and voivodship was 59,424 zloty in socialized industry, 60,584 zloty in state industry, and 51,659 zloty in construction. According to a recent communique from the Central Office of Statistics, the average monthly wage in the socialized sector nationally was about 51,800 zloty.

Two tragic deaths of priests are the objects of investigations. Father Stefan Niedzielak, parish priest of the Karol Boromeusz Parish in Warsaw, was found dead in his apartment; death occurred as a result of a broken



neck. Father Stanislaw Suchowolec died as a result of suffocation. A spokesman for the prosecutor in Bialystok stated that there is no basis for assuming other people caused this death.

The new wages in the health service are retroactive to 1 January 1989. The National Council of the Federation of Trade Unions of the Workers of the Health Service has adjudged that the collective dispute with the government has ended and has asked its organizations to call off all protest actions.

Who's Who News. Franciszek Gaik (age 43) has been named by the Sejm to the position of minister and head of the Central Planning Office. Economist. PZPR member.

New prices on high-percentage alcoholic beverages went into force beginning 6 February 1989. A half liter of 90 percent alcohol will cost 5,040 zloty instead of 4,200 zloty; a bottle of plain vodka will cost 2,070 zloty instead of 1,800 zloty.

#### On the Left

After W. Jaruzelski's working visit to Prague and talks with M. Jakes it was announced that there would be close economic cooperation and coordination of plans.

Marshal V. Kulikov (age 69), USSR first deputy minister of defense and the commander in chief of the armed forces of the Warsaw Pact, has resigned his position. He was replaced by Piotr Lushev (age 65), deputy minister of defense since 1986.

The DPRK has recalled its ambassador to Budapest and demanded the recall of the Hungarian ambassador to Pyongyang after Hungary established diplomatic relations with the ROK. [passage omitted]

Ministers Shevardnadze and Qian Qichen held talks in Beijing on bilateral relations, the issue of Kampuchea, regional and global problems, preparations for the USSR-PRC summit meeting. In May, M. Gorbachev is to go to Beijing. [passage omitted]

Polemic comments by K. Grosz in association with comments by two members of the Politburo of the MSZMP Central Committee, J. Berecz and I. Pozsgay. The first of them said that the danger for Hungary derives, at present, from the fact that the most numerous and most powerful political organization, the MSZMP, is not suitable for directing the political processes, because it must put its own ranks in order. The second, analyzing the events of 1956 used the term "people's revolution" instead of the previously accepted "counter-revolution." "I know no motives which would incline Pozsgay to formulate such a conclusion in his analytic work," commented Grosz. And further: "I have never heard Berecz state that the MSZMP is unsuited to

directing the processes occurring in Hungary. If a political party does not want to exert influence on the political processes, then it resigns from the implementation of its main task. Thus, at the February plenum of the Central Committee, we will have to make decisions on our attitude toward such important questions as the position of the MSZMP with respect to the multiparty system, to the campaign law, and to various alternative movements."

"Is it difficult to be Pope?" "Difficult," responded John Paul II, "but with the help of God it is possible. . . . A new situation has developed in the world," said John Paul II. "I am closely following the transformation in your country; a new atmosphere is being created. Democracy, transformation, this is very precious. I wrote about this in a letter to M. Gorbachev." A few sentences from a very long report in the daily newspaper PRAVDA titled "Gardens of the Vatican" after a delegation of the Soviet Peace Defense Committee was received by the Pope for a private audience.

"Adventurism, attempts to inflame anti-Soviet and separatist moods, and speculation on the various types of difficulties and problems were evaluated at the recent plenum of the Central Committee of the Communist Party of Latvia. The plenum answered many questions and problems bothering people. In particular, it expressed itself on the issue of the so-called occupation of Latvia and the creation of national military formations." A fragment of an article from the military paper KRASNAYA ZVEZDA. The paper also cites fragments of a speech at the plenum by J. Vagris, first secretary of the Central Committee of the Communist Party of Latvia, who said, among other things, that there is no sense in destroying the existing structure of the armed forces and creating a national military formation in each republic and in each ethnic district.

"Together with our whole party and nation, we join in warmest wishes for you on this special day with the greatest wishes of love, deep respect, and boundless gratitude, that we have for you, much honored and loved Comrade Nicolae Ceausescu—the brilliant creator of socialist Romania and foresighted leader of the party and state, hero among heroes of the Romanian nation, outstanding fighter for the international communist and workers' movement." A fragment of a long congratulatory letter from the highest party and state authorities on the occasion of the birthday of the president of Romania.

RUDE PRAVO has printed a letter from a woman whose daughter lives in Czech Cieszyn, who after the introduction of a rigorous customs policy, no longer had to stand in line in front of the stores. "Each state has the right to protect its consumers, and we cannot be an exception." The Warsaw correspondent of Czechoslovakian TV sharply criticized the Polish mass media for unobjective presentation of Czechoslovak problems and



as an example he gave the "hubbub aroused in Poland after the introduction of the new customs provisions by the CSSR." [passage omitted]

#### Opinions

*Mieczyslaw Lesniak, secretary of the SD Central Committee:*

[Answer] Reports on the SD are still limited to short informational notes. After the 16th plenum of the SD Central Committee, which was an important event and created a basis for forming new SD program conceptions, there were direct reports from the deliberations on television, in the Polish and foreign press, even exceptionally lengthy ones. The result of this was almost immediate. Results of public opinion surveys showed an increased interest in our party. Later, however, the subject found no echoes among journalists either in the central or in the local press. Particularly the latter is "guided by hand"; I know of cases of guidelines from disposition centers in the local areas that directly state that, for example, one and a half pages of typed text can be written about the party and no more. That is how things are now.

(Interviewed by Barbara Dybkowska, ILUSTROWANY KURIER POLSKI 21-22 January 1989)

*Prof Dr Anna Przeclawska, sociologist:*

Has Solidarity matured to the role of a trade union? It is possible to say, first, Solidarity has evolved, and second, conditions have changed. There is a relationship between the conditions and self-awareness. In my opinion, the situation has finally matured enough for pluralism to clear the atmosphere. The failure to satisfy the natural, justified need for respect, for a sense of one's own identity, causes tension.

If Solidarity is to have its own identity, not an imposed one, and also if it is not the only place in which one can manifest a different opinion, then its role will be different, and the atmosphere will be calmer. As regards its structural and organizational characteristics, I still cannot say what this union should look like. That should be considered at the roundtable. No form should be rejected in advance.

(Interviewed by Slawomir Krasucki, KONFRONTACJE January 1989)

The opinions and views cited in this section do not always agree with those of the editors.

#### Court on Electoral Procedure Complaints, Changes in Electoral Law

26000294 Warsaw RZECZPOSPOLITA in Polish  
2 Jan 89 p 3

[Interview with Judge Wacław Sutkowski, president, Supreme Court in charge of Civil and Administrative Chamber, by Anna Karpinska: "Electoral Law in the Courtroom"; date and place not given]

[Text]

[RZECZPOSPOLITA] Following the elections to the people's councils (17 June 1988), 89 cases of protest came into the Supreme Court. Four years ago, it was a dozen or so. What does this indicate? That the electoral law regulations are weak or that mistakes were made by those who prepared the elections?

[Judge Sutkowski] This is, I think, a rather far-reaching conclusion, although, there is no doubt that both the electoral law regulations and the organization itself of the elections require changes or rather improvements. In my opinion, there are two reasons for the increased number of protests. The first one is that the institution of protesting has become more popularized among society. The second, that the public has come to believe that this is not some cheap ornament but a real possibility of eliminating irregularities. When 4 years ago, the Supreme Court [SN] invalidated the elections in one of the districts of Lublin Voivodship (the case involved the violation of the principle of openness), this was received as a kind of sensation. Things are different today. The public has come to believe that this is a good way to control the elections campaign.

[RZECZPOSPOLITA] Attention is called to the fact that the SN has, as a rule, dismissed protests.

[Judge Sutkowski] Is this an accusation? If so, then it is totally unfounded. The fact is that the SN has said 17 times: "The elections are invalid" and 72 times: "The elections are valid." However, it should be realized that the elections can be made invalid only if it has come to a fundamental violation of the regulations and if this has had a vital bearing on the election results. Therefore, not every transgression of the rules results in the invalidation of the elections. Such are the conditions written into the regulations of the electoral law. The court has confirmed many times that the law had been violated as charged in protests; therefore, it admitted that the citizens were right but despite this, it dismissed the protests. That is because as required by the electoral law, the violation of the provisions did not have a significant impact on the election results.

[RZECZPOSPOLITA] Therefore, somewhat automatically the uncertainty arises whether the electoral law regulations have not placed the crossbar too high?

[Judge Sutkowski] I believe that this problem will have to be reviewed thoroughly in the discussion on its [electoral law] future form. However, I wish to also call attention to the fact that, although, the current solutions do not allow for the correction of all violations, then on the other hand, I cannot imagine a situation in which all violations of the law, even the most trivial should have to be corrected by the court. If only because some protests had their basis in neighbor conflicts or simply resulted from litigation. This could lead to the distortion of the substance of protests. Therefore, some sort of golden solution must be found. This also constitutes a subject for consideration during work on the new electoral law.

[RZECZPOSPOLITA] In my opinion, you have touched upon an important issue here, i.e., that in selecting our own local administration we should vote for the best and not for those whom we only like. I believe that more important than voter turnout is the aware voting by those who really want to have an impact on that which is happening in their own backyard.

[Judge Sutkowski] The electoral law does not base its election results on the number of people taking part in the elections; although, it is obvious that the more people there are who elect someone from their own midst, the more objective the choice. However, I would like to take this opportunity to call attention to a significant phenomenon that made itself known in the courtroom. Thus, some self-government activists had only one thing in mind—the largest possible voter turnout. This proves that not everyone has as yet let go of the habit of thinking as of old. For example, it follows from the reported figures that in one of the districts more than 100 percent of those authorized to vote voted. This is being currently investigated by the public prosecutor's office. The electoral law was not to blame for this in any way. The blame lies with the people who, in a way, overlooked the lesson of the most recent history.

[RZECZPOSPOLITA] Mention was made quite frequently in the courtroom about the improper presentation of candidates. Are not the mechanisms which control their nomination not overly formal and should they not be changed in the future?

[Judge Sutkowski] Many accusations were made against electoral colleges. The first one being that they pushed the candidates with recommendations too strongly. This gave rise to discontent. It turned out that there was not enough room on the list for people nominated at community meetings. Therefore, a kind of conflict between

organizational and community interest occurred. However, this is not a problem requiring changes in the future electoral law. The present one leaves much freedom in this regard. It is only a matter of wanting to and knowing how to use it.

The second accusation concerns the campaign organization itself. Many of those protesting charged that pre-election meetings were not held or that they were not informed about them and were, therefore, deprived of their influence on the form of the electoral lists. Frequently, this resulted from the short deadlines in the elections calendar. Therefore, in time the organization of events pertaining to elections should be decisively improved or more time should be guaranteed the colleges.

[RZECZPOSPOLITA] What other shortcomings of the electoral law appeared during the examination of the elections protests?

[Judge Sutkowski] It seems to me that the issues with regard to the participation in the elections of soldiers fulfilling basic military service have not been settled very well. They vote where they are stationed temporarily. The electoral law stipulates that closed voting precincts are to be annexed to civilian districts in which more than 30,000 people reside. However, soldiers are not emotionally tied to the area in which they elect councillors and yet, they can change the election results with their votes. In my opinion, this issue has been poorly worked out.

And one more issue which I would like to bring up. It may be stated on the basis of the protests directed to the Supreme Court that an overwhelming majority of the voters voted in full awareness, knew the candidates, and in simple terms, knew what they wanted. However, we also have evidence that knowledge about the revised regulations is minimal. In some regions, the belief continues to linger that voting takes place in an indiscriminate manner. Thus, that the vote is cast for the first candidate. In my opinion, propaganda geared mainly toward participation in the elections is to blame here. This has to be changed in the future.

On the other hand, to return to the electoral law itself: many of its solutions have proven true whereas others have to be revised. All the observations that came up during the review of the protests will be turned over to the People's State Council by the Supreme Court. They will, undoubtedly, be useful in the work on the new electoral law.

## CZECHOSLOVAKIA

### Restructuring Directive's Merits, Deficiencies Discussed

#### Matejka Doubts Effectiveness

24000056 *Prague HOSPODARSKE NOVINY in Czech*  
28 Oct 88 p 3

[Article by Prof Eng Milan Matejka, School of Economics, Prague: "Views of an Economic Theoretician: Doubts About Quality of Directive on Restructuring"]

[Text] The success of the restructuring of the Czechoslovak economic mechanism is contingent above all on the good quality of the program of restructuring; restructuring must be planned in the most highly professional manner. The most important document of the project, according to which we are to proceed, is the Directive for the Implementation of the Restructuring of the Economic Mechanism in the CSSR (in the future only the Directive). This document has, according to my opinion, a number of weak points. I consider it necessary to express my doubts about its quality.

I often hear: Let us not engage in a post mortem on the past, let us just limit ourselves to the observation that the former economic mechanism suited the developmental stage of socialism, and let us concentrate on the future. But such an attitude is deceptive. If there is no critical analysis of the system which we wish to improve qualitatively, for the most part we shall not be able to rid our thinking of what is obsolete or what was wrong with the old economic mechanism from the very beginning. The outdated remnants of the old thinking then prevent the inception of a new, higher quality organization and management of the national economy and as a rule lead to an unsystematic mixing of the new elements with the old ones, while the new and the old are mutually disparate. The economy then could, following the modification of the mechanism of management, function even more poorly than it did prior to the modifications. This was characteristic in the case of the changes in the Czechoslovak economic mechanism made within the framework of the so-called Set of Measures, following which the ills of the Czechoslovak national economy (disproportionality, slow R&D progress and export problems connected with it, resources laying idle in inventories, unfinished construction projects, etc.) only became more acute.

#### The Existing Mechanism

The danger that the old, irrational economic thinking will survive flows mainly from the state of the science of economics in the socialist countries. The current theory of directing the socialist economy came into being in the USSR in the thirties, therefore at a time which was the least favorable for scientific work. There has been a number of hard criticisms of that period published lately, same as of hard criticisms addressed at the current

social sciences; at their scholasticism and persistence in clinging to unsubstantiated dogmas. But thus far, positive alternatives have not been systematically formulated, and only a negligible amount of doubt was cast on some of the incorrect basic theses. We continue to connect inseparably with socialism those things which tend to be detrimental to it rather than beneficial.

Let us take a look at and briefly assess at least the main thesis about managing the socialist economy, in which we were brought up and which significantly influences also the planning of the restructuring of the future Czechoslovak economic mechanism, that is, the thesis about state planning.

In the textbooks on socialist political economy and other theoretically or practically oriented publications we read that the basic instrument of managing the socialist economy is the state 5-year plan, that through its instrumentality a socialist society ensures a continuous (free from cyclical fluctuations), proportionate development of production subject to the needs of the population, and that the state 5-year plan therefore has the character of a law. All that sounds very comfortable and it evokes a feeling of present and future certainty. And who would want to dispel such a feeling? Not even the discrepancy between theory and practice disabuses us sufficiently of our theoretical illusions, because we ascribe the shortcomings of everyday life to a faulty practical implementation of theoretical postulates. And at the same time, almost every one of the mentioned maxims and propositions expresses wishful thinking rather than objective possibilities, and thus has very little to do with science. I shall be specific:

1. There exist no technical-methodic means for ensuring proportionality in production through the instrumentality of the state plan formulated by the center. The instrument which we have at our disposal, structural balance, will enable us to formulate the proportions of only a limited number of items (final products and their components). We are not technically capable of correctly establishing in the center the ratios of millions of products or semiproducts in the national economy. The basically independent separation of gross sectoral plans, which we have been forced to resort to in practice necessarily leads to disproportionality, to the traditional contradictions of the plan which grow deeper with increasing complexities of production. The technical-methodic problems of the center connected with ensuring proportionality inevitably also lead to the preservation of the structure and technical level of production, because fundamental qualitative changes in production only further complicate the problems of composing the state plan on the basis of balancing.

2. Economic growth objectively is not linear, without cyclical fluctuations. Even the production of a given good has various phases which differ substantially in their economic parameters. Everybody knows that in the initial phase the results (outputs as well as costs) are



unfavorable. Not taking into account the progression of the production cycle and planning a continuous growth of production for the enterprises by the center are thus a serious obstacle to basic product innovation. The economy of a self-determining socialist country cannot be immune even to cycles of a higher order which are taking place on a worldwide scale.

3. The relationship between production and consumption is not onesided in the sense that production must be subject to the needs of the public. The relationship is in the nature of an interaction, the needs (demand) of the public change in relation to the products offered. Even if we actually ascertained the needs of the public when constructing the 5-year plan (which we do not), there is no guarantee that in a year or two the production would not become at variance with the needs of the public.

4. The structure of production of a given country does not have to be even roughly in accord with the structure of consumption. The need is to utilize the advantages of the international division of labor to the optimum degree. With regard to the specific conditions of each enterprise from the standpoint of integration in the global division of labor, the optimums in this respect cannot be determined in the center, in the state plan. The optimums will flow, among other things, from the actions of potential partners.

5. Different kinds of production have different time spans of production and investment cycles, and these cycles begin at different points in time. Planning must be subject to that as well. A rigid 5-year planning is in contradiction to the multifariousness of life and is thus a complete opposite of what the approach should be. The plans must be "custom made" for specific productions even as regard the length of the planned period.

6. It is totally unwise to conceive of the state plan as a law in the sense of a legal norm, a directive. (We cannot even talk about the plan as a law of economics.) All economic plans must be understood as guidelines for the course of action, which have to be elaborated in various ways and which, with respect to new actualities and gradual deepening of knowledge about economic realities, must be made timely and in some cases even totally reworked, be it even during the implementation phase of a given plan. The concept of the 5-year plans as directives for action for the next five years necessarily has as a consequence a lag in R&D, because in this kind of economic management the element of stagnation is literally built in.

#### Objectives of the Directive

A thorough critical analysis of the Directive would require a multilateral study. In this passage I shall set forth the reservations against the principles of state planning, because (as is stated in the Directive) even in the future "the basic instrument of economic and social development will be the state 5-year plan." I formulate

my reservations first and foremost from the point of view of the general principles of the total production indicator, because socialist production is presented today (in contrast to the past) in terms of the total production indicator, even in the Directive.

Let us look, first of all, at the attitude of the state plan toward the microsphere.

Even in the future, the basic directives of the state plan for enterprises are to be the specified (material) tasks, limits, and financial indicators. However, the number of directives will be substantially reduced, particularly in the case of the financial indicators—to a few indicators of efficiency or economic equilibrium.

"The amount of specified tasks and limits in the area of deficit resources is to be reduced in the Ninth 5-Year Plan from one third to one fourth of the present level." In order that enterprises are not adversely affected by the specified tasks, there are to be introduced "limits and rates of system grants for balancing possible losses caused by specified tasks." In these at first glance positive changes I already see serious stumbling blocks.

In connection with the substantial reduction of planned specified substantive outputs and limits of specified substantive outputs of production, a question arises for the enterprises: Upon what basis will the limits of outputs for the enterprises be established when the center ceases to make decisions on a substantial portion of the material outputs of the enterprises, and when in constructing the state plan it will not have complete information about future production programs of individual enterprises? After all, what enterprises objectively need for inputs—even of the basic kinds of materials and energy—depends on the substantive outputs of production and on production technology. Heretofore, in the effort to balance out production as comprehensively as possible, the planning of material inputs for production for individual enterprises had at least some theoretical substantiation, because the center tried to link inputs with the planned outputs of the enterprises. Following the restructuring, however, the basis for allocations by the center will be even more vague than it is now. Moreover, management by allocation is in principle counteractive to the total production indicator and leads to inefficiency of production.

Also, combining specified tasks with system grants for those tasks is not commensurate with the total production indicator and is irrational. Where is the guarantee that the grants determined by the center will actually make up the losses of the enterprises on whom the specified tasks will be forced? And where also is the guarantee that the system grants for specified tasks will not on the other hand promote those enterprises which have been assigned specified tasks over other enterprises? Where then is the guarantee against favoritism in assigning specified tasks? The combination of specified



tasks with system grants is a very dangerous means given to the center to downgrade some enterprises and give preferential treatment to others.

The downgrading of some enterprises and preferential treatment of others in pushing through substantive objectives of the state plan can be counteracted in my opinion only by the replacement of the directive relationship between the center and the enterprises by an economic, contractual relationship, giving all enterprises the opportunity to bid for state orders as well as for central grants of selected programs, using the method of open competition.

The objectives in the area of financial planning are also problematical. Here the Directive tries for comprehensiveness, for the planning of "money flow among the public, the budgetary sphere, foreign countries, the financial credit system, and enterprise finances, that is, the movement of funds according to sectors as well in the necessary financial breakdown." Such a fiscal 5-year plan is to come into being by the "development of a long-term outlook of basic macroeconomic indicators and ratios."

However, what will be the basis for determining the financial parameters of production in the long-term outlook, and what will be the basis for developing and dispersing them under the 5-year plan? After all, financial flows are linked with the pertinent parameters of production in individual enterprises, with the prices of goods and production inputs of the enterprises, with the cooperative relations of the enterprises. Does anybody perhaps know 10 or 5 years in advance what, to whom, and for how much will enterprises be selling, what, from whom, and for how much will they be buying? After all, even the very existence of some of today's firms is uncertain. Short of having the character of a total fiction, the comprehensive 5-year value plan will undoubtedly be outside the range of the economic optimum. The effort to strengthen the comprehensiveness of the central planning of value quantities and flows is moreover in conflict with the reduction of the extent of substantive state planning which was commented on above.

The Directive endeavors to inject optimization into our planning as a new element, and prescribes criteria (indicators) for creating optimal plans. However, even in this respect it lacks rationality, among other things because it prescribes different standard quantities for different purposes. For example, besides the general criteria for creating optimal plans (different for macroeconomic plans and enterprise plans) altogether a different quantity is prescribed, a net ratio of production to manufacturing costs, as a criterion for assessing the variants of production programs, and the activity of investments and technological development. One can have two entirely basic reservations:

1. The subject of the planning is primarily the production program, investments, and technological progress. What will then the basic criteria for constructing the 5-year plan serve (the Directive introduces national income per worker for the macroeconomic level, and earnings per worker for the enterprise level), if not the decisionmaking about production programs, investments, and technological progress?

2. The mentioned criteria are unacceptable, their use for the construction of the plan is in conflict with the basic principle of the total production indicator—to strive for a maximum replacement of value (popularly speaking, for a maximum efficiency of each koruna invested in production). If we wish to speak about the total production indicator, we must first of all take into consideration the objective content, function, and linkage of economic quantities, and not think up some Czechoslovak specifics in this respect, which we have been doing for a long time.

Prices calculated according to cost, which is according to the Directive one of the points of departure of the restructuring, also is sharply in conflict with the goal to construct optimal plans according to the criterion of production efficiency. When setting prices in this way, we take everything as equally efficient, so what optimization of production according to the criterion of efficiency are we talking about? When prices are set in this way, the price does not fulfill its function as a criterion, which in the total production indicator is the most important function of price. With such price setting, the total production indicator loses its basic priority, if we can talk about a total production indicator at all.

From the viewpoint of the total production indicator, the solution of another key problem of the economic mechanism, price control, is also faulty. The linkage of the growth of wages with the growth of net production is unacceptable at the enterprise level, particularly when we consider the various possible substitutions of direct labor with embodied labor, in automated production among other things.

Not even the fact that the Directive allows some rational alternatives to the criticized approaches (i.e., besides specified tasks, issuing state orders for competitive bidding), speaks in favor of the document. Rather, it shows how unsystematic it is, mixing, as it does, heterogeneous elements.

The concept of the Directive is also problematical. It reflects the current departmentalism, and some categories of problems are arbitrarily divided among various chapters.

#### How To Proceed

Together with 12 leading specialists from the School of Economics in Prague, I expressed my basic reservations about the Directive already at the time the document

was in the preparatory stage. We took it to task already then for being unsystematic, professionally faulty, a halfway measure. Because the reservations against the Directive and the materials on the basis of which it was constructed actually have been increasing lately, the question arises how to proceed if the justification of the reservations and the need to rework the project are accepted.

It is decisive for the quality of the project who will be entrusted with its creation. The Directive, similarly as the documents of the Set of Measures, was worked out by a collective of workers representing the viewpoints of individual interdepartmental agencies of the Czechoslovak economic center, while the leading and synthesizing role was performed by workers from the staff of the supreme executive agency—the Office of the Government Presidium. It would appear then, that it would be difficult to assemble a more representative, experienced, and thus also more appropriate, collective.

Abroad, however, there is a widely held opinion that entrusting economic reforms to the present economic apparatus holds the least promise. Reference is made at the same time to the conservatism and particularly to the reluctance to change anything which would limit the original rights and work style of the economic center. It is being recommended therefore to entrust economic reforms to a group of specialists whose ideas and existence are not tied in with the system which is being reformed.

If today we want to construct an economic mechanism commensurate with the total production indicator in the current stage of development of the production forces, we cannot entrust the project to anyone other than to people who are thoroughly acquainted with the current theory of the total production indicator, and who are moreover able to see the problems in their mutual connections and under socialist conditions. Such abilities one can hardly expect from the managers of the present center, although one cannot rule out exceptions even there. The workers in today's economic center not only were brought up on antigoods doctrines, they have been implementing and incorporating these doctrines into specific regulations in their sectors for years. Their thinking, therefore, is much more firmly linked to them than anybody else's, and, moreover, they see problems as a rule from the particular, departmental point of view, because under the present system of management narrow departmentalism (not only branch, but also interdepartmental) has been typical. Can one be surprised then, that there are contradictions among individual parts of the Directive and that many of the measures are totally inadequate for the total production indicator?

The fact, that around the world successful economic reforms have been the work of scientists, and that the concept of economic policies of the governments of leading countries in the world is routinely worked out by

top scientists, is absolutely natural. Science today enters into all areas of practice and it cannot be otherwise even in the area of top economic management.

It cannot be deduced from the unsatisfactory state of social sciences in the socialist countries that, in the current restructuring of the economic mechanism in Czechoslovakia, the science of economics is operationally represented by practitioners who in creating regulations follow a routine from the previous administrative management of the Czechoslovak economy.

#### Official Critical of Matejka

24000056 Prague HOSPODARSKE NOVINY in Czech  
2 Dec 88 p 4

[Article by Eng Jaromir Matejka, deputy minister-secretary of the Planned Economic Management Committee: "On the Article "Doubts About the Quality of the Directive on Restructuring," HOSPODARSKE NOVINY No 43/1988: "He Missed the Target"]

[Text] An article "Doubts About the Quality of the Directive on Restructuring" was published in HOSPODARSKE NOVINY No 43/1988. It caused quite a stir especially among the professionals. This can be seen also from the fact that in the secretariat of the Planned Economic Management Committee a number of views and comments by workers in theory and practice have accumulated within a short time, demanding the publication of an answer to the distorted assertions and mistaken views of the author of the "Doubts About the Quality of the Directive on Restructuring." For these reasons, and in the interest of a correct understanding of the concept of our restructuring, I consider it necessary to speak to the conclusions of Prof Matejka.

First of all, to the main theme and conclusion of the mentioned article. Its author presents in it some individual objections to the Directive for Implementing the Comprehensive Restructuring of the Economic Mechanism, therefore to the "blueprint" of the restructuring, which lead to a general conclusion about its inadequate quality. He sees a remedy in entrusting the construction of the economic reform program to a group of specialists whose ideas and existence are not linked with the system which is being reformed.

#### Project Without Specialists?

Let us leave aside for the time being the substantiation of the individual objections of the author on which he bases his conclusions (we shall speak about their very low quality again later), and devote ourselves to the main conclusion of Prof Milan Matejka. Most puzzling, above all, is his quite inadequate information about the method of work on such historically important documents among which belongs also the Directive for Implementing the Comprehensive Restructuring of the Economic Mechanism. What actually is the source of the doubts held by the author whether there was a requirement to

include in this work also the best workers of our scientific front, whether use was not made of the knowledge of our basic and applied economic, social, and political researchers, their analyses and suggestions for the direction of the economic reform? Not the assertions and doubts of the author, but on the contrary, the caveats of those who designated the initial variants of the documents on restructuring only as the starting concepts of theoreticians were well founded. To make things quite clear. A significant share in preparing these documents was contributed in the theoretical area especially by the staffs of the Economic Institute of the Czechoslovak Academy of Sciences and the Slovak Academy of Sciences, the Higher School of Politics of the CPCZ Central Committee, the Central Institute of Macroeconomic Research, the Research Institute of Research and Development, the Council for Economic Research, and of course the School of Economics in Prague.

It is not possible to name in this article all those who worked on the research, who took part in this work in some form, that is either directly in working groups or as consultants, or those presenting opposing views or preparing the groundwork. For example, just in the case of the School of Economics there was the work of Prof Eng E. Vopicka in the area of the *khozraschet*, the consultations with Prof Eng J. Petrivalsky (in the area of exchange policy and management of economic equilibrium), the opponency to the Directive conducted by Prof Eng Z. Mosna, and the personal participation of Doc Eng M. Mach, in some of the debates of the working group. Apart from that, the proceedings of the Council for Planned Economic Management were attended also by chancellors of our schools of higher learning, and leading representatives of our principal research institutes, who were able to use the entire potential of their workplaces, personally took part in the work on the documents.

One can deduce from the objections of Prof Milan Matejka that he himself was not among the scientists who had the opportunity to influence the work on the restructuring in a significant way. That I can confirm. But to explain this fact much is suggested precisely by his article in *HOSPODARSKE NOVINY* No 43/1988 as well as by what he has published thus far. In this connection I must emphasize that personally I regard highly every serious critical discussion of the reconstruction program as well as of the approach to its realization (where today the most complicated problems are concentrated), and I also value the interest in the matter and the courage of the author of the mentioned article. Unfortunately, however, I have the feeling that in a certain respect he impedes the restructuring by his attitude.

### Is the Directive a Dogma?

And now to some specific questions and objections. The Directive for Implementation of the Restructuring of the Economic Mechanism was not worked out, approved, or presented to the public as an immutable dogma. Our

leading party and government representatives emphasized on many occasions that this is an open document, which will be constantly improved upon during the course of the restructuring of the economy, and mistakes, which objectively cannot be avoided, will be taken out. That is logical, because no socialist country today has constructed a definitive model of economic mechanism (including the unquestionable transition to it), and a total turnaround to intensification has not been completed in any of those countries. In the end therefore one can agree with the assertion of Prof Milan Matejka that the development of economics has not yet reached the necessary level either. Even the practical implementation of the restructuring therefore cannot be entirely perfect; its individual stages cannot be mechanically pegged by substance or time, neither however is it possible to skip necessary transitional phases, or to discard everything old all at once. It is an inappropriate and nonobjective simplification that the old perishes as soon as the new is born.

The shortcomings, for which Prof M. Matejka takes to task the restructuring program, "are entirely missing the target." His rebukes are based on a serious distortion of formulations in the Directive, on their incorrect interpretation, and the mixing together of measures which are projected for the immediate years with measures which are goal oriented. Moreover, the author did not grasp the main problems, the open and unresolved questions which the Directive contains and to which it points throughout and asks for their resolution as soon as possible. We are talking, for example, about the methods of optimizing economic structures according to efficiency in creating the plan, the set of instruments for the management of environmental protection, the system for directing the social program, the methods of reaching economic equilibrium, the approach for achieving the convertibility of the Czechoslovak currency.

We therefore consider the Directive to be open and we await a constructive discussion about it, including suggestions on how to resolve the above mentioned questions. We expect the initiative on these questions particularly from the theoretical front (because the theoreticians do not have to lecture us about the fact that the detailed specified tasks and limits are remnants of the old system). But I am pointing out in this connection the necessity to distinguish what is contained in the Directive from what the appropriate central agencies, or possibly the still existing connecting links of management, actually implement in practice vis-a-vis the enterprises. Here, unfortunately, in conflict with the Directive and the law on state enterprise, the use of many old administrative approaches, volume indicators, etc., stubbornly persists, even toward organizations which have been already transformed into state enterprises.

The author states that already at the time the Directive was being worked on, 12 leading experts from the School of Economics in Prague expressed their position in the sense that the Directive is unsystematic, professionally



faulty, and a halfway measure. Shortly after receiving this position statement, I took part personally in a discussion at the School of Economics. First of all, it appeared that the mentioned position was not the official attitude of the School toward the Directive, and its Chancellor was not informed about its preparation or about the working group engaged in its preparation. Later it became obvious from the discussion that individual participants held very different opinions on the questions under discussion. The final editor of the position statement obviously adjusted the conclusions contained in the positions to fit his own ideas. Most serious, however, is the fact that the position suggested mutually incompatible, inconsistent solutions, conflicting with the character of the total production indicator as well as with the meaning of socialist economics (only the passage about equilibrium was of value, but that related to the implementation of the program).

For example, the authors in one place rejected the use of standard levies, but in another place, with the same scientific infallibility, they rebuke the Directive for not taking into account the diversity of the organic composition of production factors in individual productions, sectors, enterprises, etc. Obviously they did not see that standard levies and minimal obligatory (standard) allocations are the way of reacting on a consistent basis to the diversity of the structure of production factors.

Then, for example, they criticized the restructuring of wholesale and retail prices, saying that it is constructed on the basis of average costs of Czechoslovak production, and recommended that this restructuring be based on world prices. But in the same breath they took the Directive to task for not taking into account the laws of the total production indicator. But what can be more of a gross misunderstanding of the laws of the total production indicator than the naive notion that world prices can be introduced into the economy by a single stroke of restructuring, by a single act of the central authorities. The restructuring of wholesale and retail prices objectively can be only the first small step toward objectivization of our value instruments. Rational prices, linked to world prices, prices abroad, can after all come about only in demanding economic processes, in hard conditions of the plan, in production and in the market, in conditions when economic entities behave according to the criteria of efficiency, when there exists economic competition and openness toward foreign markets, when there exists a balance in supply and demand and a harmony in supplier-consumer relations that depends on it and which will give the buyer and the consumer equal standing in the market. What more can one add to that? Only that theoreticians, who worked on the Directive, held varied opinions on these questions, however they definitely did not speak arrogantly, but searched for uniform, concise, and effective solution.

#### **What Is It Actually All About?**

In the introduction to the article, the author demonstrates on a number of known and correct realities that

the center is not capable of balancing out and determining in all details tasks in production or in marketing for the enterprises, his aim being to prove that the Directive does not proceed from these realities and that its conceptual base is theoretically faulty. The proof of that is the observation of the author that "even in the future the basic directives of the state plan for enterprises are to be the specified (material) tasks, limits, and financial indicators". That assertion is totally incorrect.

First, the Directive does not contain any such formulation.

Second, although specified tasks are mandatory outputs of the state plan, they are not the basic directives. The foundation of these mandatory outputs is formed by uniform levies, taxes, norms, and other rules for creating and apportioning revenues, because in the present structure of production and marketing it is necessary to decide on the relations between producers, buyers, and consumers.

Third, the orientation of specified tasks and limits to a more detailed apportionment of loss making production is a temporary measure, until the time when economic equilibrium is reached. The goal should be that the specified tasks, or government orders, should concern only important macroeconomic priorities (such as construction of electricity generating plants, deliveries for integrating actions, large water projects, state development programs, etc.), state tasks by the way, in which firms all over the world express great interest. Obviously, the author here mixes together the temporary and the long-range solutions of the restructuring in the area of planning.

Fourth, the specified tasks cannot be undirected, material, or monetarily expressed volumes, but concretely delimited tasks (amount, quality, price, direction and time of marketing, etc.), so that commercial contracts can be made on their basis.

And fifth, the author does not offer anything else in place of these specified tasks and limits toward an immediate solution of the problem of shortages and allocations of some resources (raw materials, fuels, products, foreign currency, etc.). But being an economist, it must be clear to him that the only other way of solving these shortages is the free movement of prices according to supply and demand. In the present conditions of impaired economic equilibrium it is nothing else but a proposal for a strongly inflationary way of growth.

Personally, however, I consider it wise to adopt a stabilizing, anti-inflationary concept of restructuring. It so happens that experiences with a number of reforms in socialist countries unequivocally prove that inflation is an inefficient, wrong, and antipeople way which does not contribute to the creation of demanding conditions for the intensification of the economy, but rather leads to unjust social consequences and a discreditation of the



restructuring. It is obvious, for example, that in inflationary conditions each economic entity has the opportunity to satisfy its needs by raising prices without solving the substance of the problem, that is, without reducing costs, or increasing the volume or quality of production. Such developments would tend to lead to a softening of economic conditions and delays in the process of intensification.

The author also shows a serious lack of understanding when it comes to objectives in the area of financial planning. The Directive mentions the planning and regulating of the money flow among the public and the budget sphere, the system of foreign currency credits, and enterprise finances. But if precisely this should not be the subject of the state plan and central planning, then the question remains whether we should count with the role of the state plan at all.

What else but a socialist state should regulate the rate of capital formation, individual and national consumption, determine developments in the area of the balance of payments and foreign currency policy of the state, the issuing and channeling of money to the state budget, the organizations, or the public? For that purpose it must use, for example, credit policy, a system of levies and taxes, norms, rate of exchange and financial-economic instruments of foreign trade, taxation of incomes, setting of the level of retail prices, and other instruments. The author thus actually rejects the role of the state even in this instance where it is used by an absolute majority of capitalist countries. It so happens that the author mistakenly thinks that the regulating of these financial flows is perhaps connected with determining the amounts of money to enable this or that enterprise to cover its needs. That proves he did not familiarize himself sufficiently with the Directive.

Neither can one find anywhere in the Directive the formulation, cited by the author, that the plan is a law. On the contrary, the planning and the system of the routine regulation of the economy are conceived in such a way that the plan will be understood as a flexible instrument for the management of the economy which will state the basic goals, objectives, and directions of the development of the economy, and which must react to the changes in economic conditions, and which has nothing to do with the old, rigid concept of the plan. At the same time, however, the plan must have a certain obligatory character toward the government and organizations, particularly in the sense that the growth of labor productivity and the living standard in the socialist society must be faster in comparison to the developed capitalist countries, in order that we prove in the future the superiority of the socialist social system. There exist also certain parameters of the state plan which must become law and which must be discussed and approved in the Federal Assembly.

In my opinion, such ratios as the structure of the formulation and consumption of the national income, the rate of investments or capital formation, the rate of

individual and national consumption, the development of the foreign exchange position of the Czechoslovak economy, the redistribution of resources between the republics, etc., must be approved by the highest legislative body, and not even the federal government or the governments of the republics can have an unlimited say in decisionmaking; at issue here are the highest interests of the people of this country, and their solution must be entrusted to the highest legislative bodies. In this sense, therefore, the plan is a law.

#### Which Criterion To Choose?

One of the very serious questions, which are the subject of the author's criticism, concerns the criteria of efficiency contained in the Directive. This article will not go into a detailed elaboration of these questions. But I have to reject on principle the author's criticism which points out that the criteria of efficiency in the Directive are incorrect, that is, the per capita national income or profit after levies and minimal mandatory allocations to the development fund per worker in an enterprise. The author maintains that these criteria are wrong and in conflict with the total production indicator. He considers return on investment to be the sole criterion. He obviously forgot about the difference in the total production indicator in the capitalist and the socialist production methods. For a capitalist, an entrepreneur, the return on production investments, that is, what profit he will gain from his invested capital, has been and is decisive, because he is the owner. He is more or less indifferent to what number of workers and what average earnings (and thus also the living standard) of these workers enabled him to achieve that result. But we understand efficiency and its goal differently. Our objective is to achieve the highest effect for each worker or each inhabitant of our country.

It must be noted, of course, that the return on production investment is an important criterion of efficiency even in the socialist economy, but only a partial criterion. Moreover, the rate of profit per worker automatically includes in it the requirement to achieve the maximum efficiency of invested resources. In using the criterion of the rate of profit per worker in an enterprise, it is of course essential that the organic structure of the production factors be fully taken into consideration. But for that the Directive has its instruments, that is, standard levies and minimum allocations to the development fund, which guarantee that each enterprise must fully cover the average social costs of simple and expanded replacement process of the labor force as well as production assets. It must thus replace the socialist ownership, which was entrusted to it, on a broader basis. But that is not the goal in itself, but a means to improve the standard of living.

The question can also be asked why we should judge the rate of efficiency only according to returns in relation to production assets. After all, the production factors are much more numerous: labor force, natural conditions, and in a broader sense also raw and processed materials.

There is only one solution, to understand efficiency in relation to whom the economy serves, that is, the working people. Socialist economy cannot give up such a principle. Because its purpose is the creation of utility values (even if it has its monetary expression, for example, profit or national income), which are designated to satisfy needs and not some capital formation as an end in itself in the hands of a privileged class.

In sum, the following conclusions can be made with regard to the mentioned objections which serve to cast doubt on the quality of the restructuring: the author distorts and picks and chooses quotes from the Directive, he interprets its pertinent precepts incorrectly, he mixes measures intended for the near future with goal-oriented objectives of the restructuring of the economic mechanism. He did not comprehend the concept of the state plan, he ascribes to the program of the restructuring objectives and measures which are not contained in it. His doubts about the quality of the Directive are therefore unsubstantiated.

#### Readers Comment on Directive

24000056 Prague HOSPODARSKE NOVINY in Czech  
2 Dec 88 p 5

[Text]

*Letter by Eng Slavomir Moravcik, Liptovsky Mikulas*

I work as an economist at the lowest level of management in a food processing plant where almost daily we must solve problems caused by the method of managing the entire national economy by administrative directives. I must point out that these problems are accumulating and deepening rather than being solved. At issue are problems with supplies of basic raw materials, a permanent shortage of spare parts of all kinds, problems in supplier-consumer relations, price setting, norm setting, etc.

I expect a radical improvement of the current state of affairs from the restructuring of the economic mechanism in all its areas. I was deeply interested in the article by Prof Milan Matejka, because it confirmed my feelings about the half-measures and inconsistencies of the documents which make up something of a theoretical core, a foundation of the restructuring, albeit they contain also some positive changes. Unfortunately, one can only agree with his arguments and conclusions. The program of the restructuring must be prepared at the highest professional level, where departmental interests and conservative thinking have no place. The faults, which are pointed out in the article, truly cannot be disregarded, which should be realized by all the responsible workers.

It is not really necessary to remind ourselves that programs in the past, such as for example the Set of Measures, did not bring the expected results precisely

because they embraced part of the economically unsubstantiated theses. In the area of wages, the program ZEUMS practically even increased wage uniformity and weakened the function of the incentive component of wages as a motivating factor, even though part of the blame lies with the conditions under which the program was introduced. But these conditions, too, were generally known. As a consequence of these mistakes our working people have been losing their confidence in the ability of our economy to develop at a more dynamic pace, which is manifested also in their declining activity.

And even beginning 1 January 1989, price setting will continue to be characterized by costs, without taking into account other inputs, such as supply and demand relations. I know from practice, how a distorted price setting caused a high profitability of one kind of wheat baked goods which we have been making as a substitute for bread; because we are a monopolistic producer we can sell this product on the market although it is not very well liked by the consumers and although the nutritional value of these goods (white flour) should be commented on by experts in good nutrition. But economic pressures downright force us to continue in this practice, although it would suffice to similarly promote the production of the dark kind of bread, which certainly would be welcomed by the producer, consumer, as well as the expert on sensible nutrition. Because there probably will not be any substantial changes in price setting, other similar examples will be seen much more often.

*Letter by Antonin Kopečný, Olomouc-Losov*

I fully agree with the conclusions in the article by Prof Milan Matejka. The staff of the economic center must utilize fully all theoretical knowledge available in order to rid themselves of precepts which do not conform with reality.

In this connection I am submitting my opinion: I do not agree with painting over the names of firms, which is being done in creating state enterprises. First it is necessary to determine appropriate economic conditions and carry out the reorganization of the production sphere on that basis.

*Letter by Eng Miroslav Vester, Trencin*

I fully concur with the opinion of Prof Milan Matejka and his doubts about the quality of the program for the restructuring. I differ only about the fact that the published Directive and the law on state enterprise are a significant step forward. I see the greatest danger in the operational directives, into which in all the previous reforms the conservative tendencies of the state apparatus, particularly the planning commissions, were transplanted. In the past, after each reform was announced, the planning commissions rose like Phoenix from the ashes and returned most everything into the original state to the detriment of the economy.

*Letter by Dr Oldrich Schwarz, Director of department store Kotva, Prague*

I am afraid that Prof Milan Matejka engages in overtheorizing the entire question. The basic elements of the restructuring, that is, the strengthening of the independent role of the enterprises, limiting the intrusion from the center into the day to day management, and search for specific forms of directing economic development by the government by means of economic instruments for the benefit of the socialist society, are unequivocally well determined.

The implementation of the principles of the restructuring in practice is very challenging and the author's idea that some team of chosen economic theoreticians should work out the concept which then will be rigorously imposed from above and ordered to be implemented, is wide off the mark. Let him name a single developed capitalist or socialist country which in a short period of time successfully carried out an economic reform on the basis of some comprehensive blueprint by economic theoreticians. His insistence that that is the way things are done around the world, is unsubstantiated.

The Labor party tried it in Great Britain in the sixties, for example. The reform was proposed and pushed through by two noted economists from Cambridge and Oxford—Dr Kaldor and Dr Balogh. It ended in a total discreditation of the Wilson Government and "British socialism" for several decades. Both professors had already behind them several similar actions in the developing countries. Every reform, which has an impact on vitally important interests of the people, and all the more an economic reform, cannot be introduced without the active role of the governments and authorities which are responsible for the political and economic fate of the countries.

Although great theoretician of the J.M. Keynes type described and substantiated new revolutionary approaches, they waited years to see them brought into existence and had to reconcile themselves to the fact that practitioners applied their theories in an immediate linkage to specific situations in respective countries and in direct conflict with the problems of their political development. Any undue haste and pushing of attractive radical approaches by those who are not responsible for management are highly problematical, and according to current experiences from socialist countries, undesirable.

*Letter by Jaroslav Smrcka, PhD, CSc, Central Institute of Macroeconomic Research, Prague*

In doing a causal analysis of reasons for keeping the Directive of the state plan we reach the conclusion that those who devised the program of the restructuring of the economic mechanism do not believe in the efficiency of other instruments in the first phase of the restructuring and are giving the state plan the opportunity to

correct their shortcomings. In my opinion, it is necessary to focus the analysis on this basic point, and analyze the planning from this viewpoint and not criticize its "substantive" shortcomings as does Prof Milan Matejka. The fact is that in the first phase of the restructuring the state plan is to fill the role of compensator for shortcomings in other sectors of the economic mechanism, such as prices, credit, monopolistic position of some producers, etc.

The cardinal question is, whether the state plan can actually fill this role in the Ninth 5-Year Plan without at the same time endangering the implementation of the priority goals of economic policy.

*Letter by Dr Karel Koch, Prague Reconstruction, Sectoral Enterprise, Prague*

No one can remain indifferent to the article of Prof Milan Matejka. Its arguments are disturbing. What he is analyzing, we feel in everyday practice.

The construction of the plans in individual enterprises proves that he is right. For example, in the area of noneconomic indicators the plan today often includes items which do not necessarily have any connection with the goals and results of the enterprise (number of employees participating in meals at the plants, fulfillment of the educational level, etc.), which would be better left to the mutual agreement of the enterprise management, council of the work collectives, and departmental agencies. The lack of logic in the current system of planning in the construction industry has been already debated in HOSPODARSKE NOVINY. That weather conditions should determine the timing of construction work, is utterly obvious. Not so, however, when it comes to the plan. That begins and ends with the calendar year, not with the spring.

In a thorough and unprejudiced analysis, carried out from the viewpoint of the enterprise sphere, the view of the planning mechanism would probably not differ very much from the conclusions of Prof Milan Matejka.

*Letter by Eng Ivan Malec, CSc, Prague*

The article by Prof Milan Matejka evoked considerable interest. There are different evaluations of it. Some are of the opinion that he points out new facts, others note that actually he is not saying anything new, but they are admiring the author's courage to put his signature on something that is "generally known." I am rather inclined toward the second group. Even though I do not agree fully with everything that is said in the article.

For example, I have my doubts that it is possible to insist so unequivocally that "we are not technically capable of determining correctly in the center the ratios of millions of products or semiproducts in the national economy." I am convinced that today computers already are capable of handling these millions of products. The question is whether it is sensible and efficient. IBM, which employs



400,000 people and has a yearly turnover of US\$50 billion, does not ensure the deliveries of components for finished goods manufacture through supplier-consumer relations but by determining the production schedule by directives.

If the restructuring is to be carried out to its conclusion, it will not be sufficient to change only the principles but the means of realizing them as well, that is, it will not be sufficient to carry out the restructuring only in the macro-economic sphere, it must be supported in the microeconomic one as well. I agree with the author's critical attitude toward the setting of prices by the calculating method. I want to emphasize, that the practice of charging write-offs against total enterprise overhead and then spreading it among the products according to the ratio of wages only further increases the absurdity of the calculating method of setting prices. Where they substituted direct labor by purchasing automated machinery and equipment, that is, by higher investments, we are charging even smaller write-offs than before. Nothing prevents the majority of write-offs to be proposed directly as a direct entry. For the computer that is child's play.

## GERMAN DEMOCRATIC REPUBLIC

### Bezirk Official Interviewed on Lignite Energy Efficiency

23000085a Cottbus LAUSITZER RUNDSCHAU  
in German 21 Dec 88 p 3

[Interview with Bernhard Dittrich, deputy chairman of the Bezirk Council for Energy by Harald Muller: "Use Our Brown Coal Most Efficiently"; date and place not given]

[Text] We are well equipped for the tasks of the 1990s with our economic strategy. This strategy is a plan for action. It is based on the generally applicable rules of socialism and the experience of policies tested over many years, in the estimation of the Seventh Conference of the SED [Socialist Unity Party of Germany (GDR)] Central Committee (CC).

In today's contribution, our guest addresses questions on energy economics. The last CC conference concluded, among other things: "Considerable efforts will be required in the coming years to further strengthen our energy base."

### STATISTICS: Percentage of GDR Deliveries of Energy Supplies by Bezirk Cottbus

	1981	1985	1987
Raw brown coal	58.2	57.6	58.9
Coal briquets	53.5	51.4	52.1
Natural gas	76.5	79.6	81.9
Electric energy	49.2	53.4	54.4

### Facts and Figures

—For the generation of one Kwh of electricity, 3.3 lbs of brown coal are required.

—A home without an electric stove uses an annual average of 1,450 kilowatt-hour of electricity.

—The average annual consumption of electric energy in a home with an electric stove is about 2,500 kilowatt-hour.

—Homes that have gas service purely for cooking claim approximately 14,000 cubic feet of gas annually.

—Homes with gas service for cooking and hot water require about 42,000 cubic feet of gas annually.

—For a modern apartment with remote-generated steam heat and warm water service, annual heating requirements are about 42 million BTU [British thermal unit]'s, for which about 5.3 metric tons of brown coal are required.

### Our Interlocutor

Bernhard Dittrich (SED), 41, is married. Since 1985 he has served as Deputy Chairman of the Bezirk Council for Energy. Before then, Comrade Dittrich was Deputy Chairman of the Hoyerswerda Kreis Council, and Chairman of the Kreis Planning Commission.

He was trained as a professional factory mechanic, then acquired qualification as a mechanical engineer and worked as a shift engineer in Gas Combine Schwarze Pumpe's coal briquet factory branch. He acquired a degree as Graduate State Scientist at the Academy for National and Legal Science in Potsdam-Babelsberg after studies from 1974 to 1978.

[LAUSITZER RUNDSCHAU] Considerable efforts will be required in the coming years to further strengthen our energy base. That is how it was stated at the Seventh CC [Central Committee] Conference. What sort of further work does that require?

[Dittrich] I can answer that in a single sentence. It remains important to a large degree that we must use domestic brown coal in the most efficient manner.

[LAUSITZER RUNDSCHAU] Our reader Wolfram Scheiter from Senftenberg is also concerned with the efficient use of brown coal. He believes that too much coal is still being senselessly squandered. How would you respond to that?

[Dittrich] Mr. Scheiter certainly bases his opinion on some examples he has in mind. It is a fact that it is important to reduce energy consumption rates. The Seventh Conference designated that as a matter of survival for our future economy, too.

[LAUSITZER RUNDSCHAU] What order of magnitude are we talking about saving?

[Dittrich] Based on the most recent CC Conference, I would say the goal for the next 5-year plan is another equivalent energy savings potential of 80 million metric tons of raw brown coal. Since additional energy production or import of energy or raw materials would cost very much, this only makes sense.

[LAUSITZER RUNDSCAHU] Presumably still thinking about the two snowfalls we already received in late fall, Mrs. Helga Schmidt from Dobern asks: How does the energy situation look for the coming winter?

[Dittrich] All the coal and energy industry collectives accomplished a considerable amount in preparation for winter, as did all the other branches of the economy. The standard was and is the severe winter of 1986-87. Among the achievements is the provision of stable energy generation service in temperatures down to -4°F and the unloading of coal trucks down to -22°F. All over, in the Bezirk Council, Cottbus City Council and in the Kreis Councils, measures necessary to complete the work even under very bad weather conditions were undertaken. They are directed particularly towards rational use of energy supplies and comprehensive support of the coal and energy industry. Our republic undertook great efforts and appropriated large amounts of money to put new capacity on line. These include the Reichwalde and Klettwitz-Nord open-pit mines and the Janschwalde Power Plant's 500-megawatt Block 6. The miners were effectively supported by many helpers from machinery, electrical equipment-electronics and other branches of industry. With progress in the complex reconstruction of the 100 megawatt blocks at the Lubbenau Power Plant, the reliability and capacity of these important energy producing facilities is increasing.

On the other hand, and I would like to make myself especially clear on this point, there cannot be any underestimation of the demands made by such a strong winter. This is true for the government leaders as well as for each individual worker. The highest law is, and remains, not just for winter: all branches of the economy are to persistently and without compromise employ the principles of thrift and rational use of energy supplies.

[LAUSITZER RUNDSCAHU] Since we just dealt with the topic of winter, this question by Reinhold Buder from Gross Kolzig follows. He asks whether our coal reserves suffice for another hard winter.

[Dittrich] I already addressed that to some degree in my last answer, because winter preparation includes appropriate coal reserves. The collectives at the Senftenberg Brown Coal Combine and the "Fritz Selbman" Schwarze Pumpe Combine struggle daily to fulfill demands for solid fuels. By November 30, they exceeded plan coal recovery by over a million metric tons.

Great efforts were undertaken to build up raw coal reserves of at least 30 days based on winter consumption for industrial users. We can determine that, based on the

great performance of the coal workers in the pit mines and briquet factories, we have the largest stocks ever of ungraded and graded coal and briquets in our plants.

[LAUSITZER RUNDSCAHU] How does it actually look?

[Dittrich] There is an 88 day supply of ungraded raw brown coal, and a 66 day supply of graded raw brown coal. The thorough completion of all production and supply tasks has thereby been secured. Naturally, that continues to require the continuous influence on effective and economical use by all the industrial consumers and timely deliveries, because each and every consumer is being counted on.

For this year's residential supply, as has always been the proven basic tenet of our supply policies, the necessary supplies for household delivery are ready. The national, collective and commission suppliers deliver briquets to approximately 225,000 families. By the end of November 1988, 797,630 metric tons of briquets were delivered to 209,432 residences, which equates to an average of 3.8 metric tons per family in Bezirk (Cottbus). Because of the mild winter of 1987/1988, the amounts ordered were about 880 lb less. The coal suppliers' reserves of briquets in the amount of 46,000 metric tons insure, along with the further timely deliveries from the coal combines, that there will continue to be full supplies for the populace.

Unfortunately, in individual cases there is justified criticism from citizens about coal suppliers not keeping their agreed delivery schedules. Together with the energy combine, the coal supplier and the bezirk supply company, we evaluate such violations and work to provide for complete fulfillment of each delivery order. The causes lie in lack of supply continuity, but are also often due to subjective error by individual managers and workers. Quick reaction and implementation of changes are the single measure of our work.

[LAUSITZER RUNDSCAHU] Does the energy source gas always have the prescribed thermal power? A. Schmidt from Dobern would like to know that.

[Dittrich] The specified thermal power for gas is 427 BTUs per cubic foot (BTU/cubic foot). A high quality gas is produced from coal gasses (from pressure gasification and from the coking plant) and imported and domestic natural gas at Schwarze Pumpe's main facility. The thermal value of this gas ranges from 450 to 470 BTU/cubic foot and so consistently exceeds standards. With this quality, Schwarze Pumpe supports the maintenance of contingency supplies for the consumers.

These quality parameters are achieved with, among other things, the microelectronic control system installed as a component of the overhaul of the fourth generator group. All the gas-manufacturing generators were purposefully outfitted with them.

[LAUSITZER RUNDSCAHU] Wolfgang Materne from Finsterwalde points to an important problem as he asks: How are efforts being coordinated with the design offices for residential and commercial construction in order to reach the best results with respect to energy economy?

[Dittrich] Approximately 37 percent of primary energy consumption in our country goes to room heating. The task is to, after 1990, hold constant or reduce the need for room heating without reducing necessary room temperatures. This is regardless of the numerical increase in apartments and social facilities. In order to achieve this, avoidable energy losses must be eliminated, for one thing. The owners of older apartment buildings in particular have socially conscious work to do here. This includes for example adding shutoff and regulator equipment, but also especially the rehabilitation of the building exteriors. The other thing is the general implementation of energy-efficient construction.

The Apartment Construction Combine Cottbus has a great responsibility in this process. Particularly in the further developments in plate construction (prefabricated construction) for apartment and commercial construction, the room heating requirements can be reduced. The apartment construction combine remains in that regard 6.5 percent under the maximum specified limits for insulation. These results are based largely on insulation-improving measures. In the further scientific-technical work, the combine is concentrating on constructive new ways and on the utilization of new insulating materials. Work on the development of multilayered exterior wall construction is being performed in the context of the central research topic "operational prototype Cottbus-Thalmannplatz" together with the Cottbus Engineering College.

A functioning prototype using polyurethane foam as heating insulation is being prepared through a joint youth research collective with the VEB Synthetics Factory Schwarzheide. For both projects, the first test results are already available, and they will be carried into the production field in the immediate future. Together with other selected projects for rational energy applications in Bezirk (Cottbus), such as the Radensdorf Biogas Facility (for sludge digestion) and the water vapor heat utilization from the Sonne briquet factory, there is a complex of energy-saving buildings under the special control and guidance of the Bezirk Council and the Bezirk Energy Council.

[LAUSITZER RUNDSCAHU] What equipment changes are recommended by the Energy Department for rational use of existing heating equipment? This question also comes from Wolfgang Materne, the energy official for the Education Department in Kreis Finsterwalde.

[Dittrich] Part of the heat supply comes from sectional boilers. There are 5,700 sectional boilers in service in Bezirk Cottbus. For economical heating equipment service, the first requirement is to have equipment in

conditions up to code, which means they need constant service and care including periodic cleaning of the boiler furnace and gas flues. In other words, matters of orderliness, cleanliness and seals, as well as minimum amounts of monitoring, controlling and adjusting equipment for boiler temperature and pressure, water inflow temperature, exhaust gas temperature and stress are all very important.

Second, the effective material and morale incentive for those operating the heaters contribute considerably to regular service and maintenance, order, discipline, security and safety and also towards efficient facility operation. One prerequisite often underestimated is the availability of data.

Third, where brown coal is primarily used for heat generation, retrofitting measures such as the addition of precombustion chambers in which the raw coal is dried, or other things like draft fans have proved themselves. And fourth, the economical operation of heating plants begins with the coal storage which maintains its quality, whether covered over or kept under cover and thereby substantially protecting the coal from the effects of weather. All equipment modifications made on boiler facilities should be thoroughly guided and approved by technical people. I recommend utilizing the newly provided broad possibilities available at the energy-efficiency Advisory Center of the Energy Combine.

[LAUSITZER RUNDSCAHU] How is the reinforced provision of monitoring, guidance and control equipment utilized? This is inquired by Dieter Behring (Cottbus), Horst Weber and Klaus Tetzlaff (Hoyerswerda).

[Dittrich] Currently, 76.9 percent of all apartments supplied with remote-heat and 71 percent of the social facilities are directed by central automatic controls uninfluenced by outside temperatures. In the largest heat supply areas of Cottbus City and Hoyerswerda, the Energy Combine has central control points for the regulation of the supply process. They control 33.7 percent of the remote-heat apartments in Bezirk Cottbus. Expansion into the remote-heat districts Wilhelm-Pieck-Stadt, Guben and Weisswasser is foreseen in the 1991-95 period.

Through the introduction of TGA [expansion unknown] control equipment by Building Construction Cottbus, the fourth factory of the GDR, the supply of heat to apartments and public facilities in center city Cottbus, which has residential service stations already equipped with microcomputer elements, has been centrally controlled since September 1988. That delivered energy savings of 6 percent. By 1992, about 10,400 apartments in the city of Cottbus are to be tied into such TGA control centers. First preparations are taking place for Wilhelm-Pieck-Stadt, Guben and the town of Spremberg.



Currently, 52,827 apartments are supplied with remote heat via residential service stations. Among them, 33.7 percent still must be regulated manually. Accelerated reconstruction and retrofitting is on the agenda, but the needs of quick implementation currently exceed material and equipment limitations as well as manpower availability.

[LAUSITZER RUNDSCAHU] That exhausts the space allowed for us. We ask you, Comrade Dittrich, to please respond in the mail to the questions we did not address here.

[Dittrich] I am grateful for the interest on the part of the readers. Of course I will do as you request.

## POLAND

**ZYCIE GOSPODARCZE 'Briefs' Columns**  
26000311 Warsaw ZYCIE GOSPODARCZE in Polish  
No 52-5, 25 Dec 88-29 Jan 89 p 2

[Excerpts from a weekly news column: "Last Week"]

[No 52, 25 Dec 88 p 2]

[Excerpts]

### In Poland

[Passage omitted] The economy in 1989, avenues for changes in our economic policy, creation of a legal foundation for stimuli and entrepreneurship, issues of the state budget, and especially the financing of national councils—these were the main threads of the conference of chairmen of voivodship people's councils and governors which was held on 19 December at the building of the Sejm.

A protocol on Polish-Soviet foreign trade in 1989 was signed in Warsaw. [passage omitted]

Theses of the PZPR CC Politburo for the 10th Plenum entitled "Reform in the Party as a Condition for the Success of the Renewal and Reform Strategy" were published. The chapter "Party and the Economy" states, among other things: "The enterprise must make economic decisions on its own, reaping the benefits and improving its financial performance as a result of correct and justified decisions, while bearing the consequences and assuming the risk entailed by incorrect decisions. In practice, this means the elimination of administrative and political interference in the production process of autonomous enterprises which in some cases still occurs. [passage omitted]

On 20 December, silver coins with a face value of 50,000 zlotys bearing a likeness of Jozef Pilsudski entered circulation. [passage omitted]

The Sociopolitical Committee of the Council of Ministers adopted guidelines for a reform in the health care service (health care will be financed from a health insurance fund to be accumulated with separate health insurance premiums). The committee also stated that the situation with regard to personal contacts in the socialist community runs counter to the general trends in the world and does not serve to strengthen friendship, cooperation and integration.

On 15 December, workforces of 67 technical service facilities of health care began a protest action (state flags on enterprise gates, white-and-red pennants on ambulances, as well as placards with messages on the pay dispute). As Minister [of Health Care] I. Planeta-Malecka stated, on 1 January 1989 a new system of financing the health care service will be introduced which has built-in provisions for wage indexing. At this point, it is difficult to say how large the expected raises are going to be. However, as the minister stated, they should bring about a settlement to the conflict.

At a meeting on 20 December, the National Council of the Trade Union Federations of Health Care Employees resolved to suspend the collective pay dispute with the government initiated on 23 November 1988. [passage omitted]

### Abroad

Chairman of the National Academy of Sciences of the U.S. Frank Press stated that the American Academy, together with the USSR Academy of Sciences, resolved to set up a joint committee for ecology. The scientists will investigate jointly the dangers posed to the world by the excessively rapid process of uncontrolled industrialization, the depletion of energy and raw material resources on a global scale, and all other unfavorable phenomena caused by human interference with the laws of nature.

The West German Government wants to liberalize the COCOM [Coordinating Committee for East-West Trade] list still further. According to the government, restrictions imposed by the COCOM caused losses of 268 million DM for West German enterprises between 1982 and 1987. In June 1988, the COCOM list was modified, but, in the opinion of the Bonn Government, "unsatisfactorily." [passage omitted]

Secretary of the Presidium of LCY CC Stefan Korosec said at a press conference following the 19th Plenum that "the Yugoslav society as a whole must embark on a general reform, of which the economic reform is the basis. We are initiating this reform in order not only to overcome the crisis, but also to build socialism worthy of the 21st century, worthy of man." The reform is to proceed along three avenues: economic, political and in the Union of Communists. A document which will

outline the premises of reforms in the Union of Communists will be submitted in January or February. The 14th Congress of the Union of Communists of Yugoslavia, scheduled for mid-1990, will adopt the outline of the new Yugoslav constitution.

Secretary of the Presidium of LCY CC Stefan Korosec made a statement on the plans of Yugoslavia to join the EEC: "Obviously, the EEC, which in the foreseeable future will become a unified market of 18 countries, is one of the major factors of economic development in the European region. CEMA countries as well will probably embark on creating a unified market in due time, with criteria and standards which will not be much different from those in the expanded EEC. Therefore, a functional and developing involvement between Yugoslavia and both the EEC and the CEMA is merely a form of entering the broader current of trends prevailing in the world economy. This does not amount to political concessions to anyone on our part, nor does it endanger the socialist character of our state." [passage omitted]

Quoting a statement by Aleksandr Prozenko, a representative of the State Committee for the Use of Nuclear Energy, the Reuter Agency reports that the USSR intends to build a nuclear power station with a high-temperature reactor before the year 2000 and two more such power stations in the coming year [as published]. The first one of the planned 1,000 MW power stations will be built on the Volga in cooperation with West German companies.

Beginning in 1989, Soviet citizens will be able to purchase and make their property the apartments in which they live. The downpayment will amount to 50 percent of the value of the apartment, and installments will be spread over 10 years. The state intends to allocate the funds raised through the sale of apartments to developing housing construction.

[No 1, 1 Jan 89 p 2]

[Excerpts]

#### In Poland

The Primate of Poland Jozef Cardinal Glemp read a Christmas Eve message on Polish TV for the first time in postwar Poland. Among other things, the primate said: "...The time is coming to stop counting on charity from the outside. It is impossible to ignore social changes in our country which may ensure a willingness to work and an increment in tangible wealth. What will the distribution of this wealth be? Will the strongest struggle over it, and the weak feel still more weakened? Will it become necessary for the Church not only to step up its charitable activities by securing the help of the more affluent through persuasion, but also to remind us of social justice?" [passage omitted]

On 1 January 1989, gasoline rationing was cancelled after 8 years. However, a liter of 94 octane gasoline costs as much as 190 zlotys, and this price is definitely not final. Also, new prices for cars were introduced. One needs to pay 7 million zlotys to get a "Polonez" at Polmozbyt. [passage omitted]

"Statistics Speak" is a GUS [Main Statistical Administration] publication intended for high school students. Tables and charts show selected issues of the development of Poland in the context of international comparisons.

The previously announced cancellation of meat rationing effective 1 January 1989 was cancelled. Ration cards will remain valid at least for the first 3 months of 1989.

Guidelines for accumulating ruble-denominated proceeds from exports are being introduced. Enterprises must transfer to the state 90 percent of the rubles earned; they may use the remaining 10 percent for their needs. [passage omitted]

According to estimates by geologists, there are over 600 billion cubic meters of natural gas under our territory, mostly in quite deep deposits. In the best years, the geologists drilled about 500,000 meters; at present, they have difficulty exceeding 350,000 meters. Therefore, production of 5 billion cubic meters this year (7.6 billion cubic meters in 1978) should be considered a success which is, however, offset by the not too rational utilization of the gas resources. Last year, about 12.5 billion cubic meters of gas were used in our country. The optimum annual output is considered to be 8 billion cubic meters.

At the 1st Hard-Currency Auction for enterprises of the nonsocialized sector in Warsaw, as much as 4,327 zlotys per dollar was paid. [as published]

#### Abroad

[passage omitted] In an interview to the South Korean Yonhap Agency President Roh Tae Woo announced that South Korea would most likely establish full diplomatic relations with the USSR and China before the current term of the president ends in 1993. To his mind, both Beijing and Moscow, as well as Washington and Tokyo have taken a favorable view of the South Korean proposal for convening a 6-party international conference on the issue of the Korean Peninsula. Roh referred to the case of relations with Hungary, expecting that talks on normalizing relations with other socialist countries will proceed along similar lines. [passage omitted]

The EEC and Czechoslovakia signed a 4-year treaty on trade and economic cooperation. According to the treaty, the community will cancel quantitative restrictions on imports of some Czechoslovak manufactured goods. For its part, Czechoslovakia will facilitate the access of EEC enterprises to its market and will advise

the community of its economic development and investment plans which might be of interest to EEC experts; it will also create favorable operating conditions for EEC companies. The treaty does not apply to textiles and steel which are covered by industrywide agreements. In 1987, EEC exports to Czechoslovakia amounted to 2.07 billion ECU (European Currency Unit), or \$2.4 billion. Machinery and transportation equipment accounted for most of it. Czechoslovakia exported to the EEC goods worth 628 million ECU (\$747 million).

Chairman of the Foreign Affairs Commission of the Vietnamese National Assembly, Nguyen Thi Binh, made a report to the plenary session requesting changes in agreements between Vietnam and four socialist countries (USSR, Czechoslovakia, Bulgaria, and the GDR) on the employment of Vietnamese workers. Vietnam should attempt to negotiate better conditions for its workers by setting minimum wages, ensuring good conditions of work, transportation, housing, health care and an opportunity for purchasing merchandise and sending it to Vietnam. The latter should be considered a form of transferring to Vietnam property obtained by legal gainful employment.

As of 1 October 1988, the value of equipment not installed and stored and warehoused was estimated to be 15,525 million rubles, or 2 billion more than last year. Stocks of imported equipment came to a value of almost 5 billion rubles. "The import warehouse" of the machine-building complex became 300 million more expensive this year; a total of 971 million rubles in currency is buried there. [Assets worth] 433 million are getting rusty in the Ministry of Iron and Steel Industry, 116 million—in the Ministry of Nonferrous Metallurgy, and almost 1.2 billion rubles—in the fuel and energy complex. There are assets worth over 0.5 billion rubles in the agricultural and food complex, and worth 847 million in the chemical and wood complex. This is exactly the kind of burden that can drag to the bottom both perestroika and the national economy, wrote the newspaper SOTSIALISTICHESKAYA INDUSTRIYA.

The State Department reported that the US had initialed an agreement with China on trade in commercial services consisting of launching communications satellites by Chinese rockets.

[No 2, 8 Jan 89 p 2]

[Excerpts]

#### In Poland

[passage omitted] At the beginning of this year, nine newly set up commercial banks began their operations. On 29 December 1988, the chairman of the National Bank of Poland issued an executive order setting forth the guidelines for charging interest on loans and establishing rates of interest on funds deposited in bank accounts. The order outlines the confines within which

the banks may operate in their relations with the clients. The basic interest rate of the central bank amounts to 44 percent effective 1 January 1989. This also is the rate of interest charged by the National Bank of Poland on the so-called finance credit.

The company "Duty-Free Area in Poznan" was set up. About 40 economic organizations of various types from Great Poland, Warsaw, the Tricities and Bydgoszcz and several private individuals joined the company. The intention of the company is to acquire a lot in Poznan which would secure the status of a duty-free area.

Election campaigns for self-government organs of the urban and rural population were completed. Three hundred and seventy thousand persons, were elected to 5,000 neighborhood committees in the cities, and almost 39,000 people were elected to rural district councils. [passage omitted]

Last year, 19,757 new cases of tuberculosis were registered in our country.

Between 1980 and 1987, the population of Poland grew from 35.578 to 37.662 million people. Over the same period of time, meat production dropped from 3.148 million tons to 3.129 million tons; milk production from 16.3 billion liters (in the years 1976-80) to 15.079 billion liters; egg production from 8.523 billion (in the years 1976-80) to 7.966 [billion] (according to RZECZPOSPOLITA).

In his last appearance on TV, M. F. Rakowski announced that inflation should not exceed 20 percent this year, and prices for foodstuffs should not increase more than 15 percent.

#### Abroad

[passage omitted] In his speech at a meeting of the Politburo of the Bulgarian Communist Party CC, T. Zivkov stressed that work on the model structure of the Bulgarian economy should begin without delay. The Council of State of the People's Republic of Bulgaria should issue very shortly a decree on economic operations which will apply temporarily until the development, adoption, and implementation of laws on various kinds of companies, and on independent participation by foreign companies in the Bulgarian economy, as well as on leasing in agriculture.

For the first time in the history of postwar Yugoslavia, a resignation of the government occurred. It happened against the background of an extremely difficult economic situation and the lack of specific prospects for its improvement. When that government was formed in May 1986, inflation stood at 84 percent. At present, it is 3 times that and continues to grow, causing a considerable decline in the standard of living of the Yugoslavs.



The CTK agency states that, presumably, the number of joint enterprises in Czechoslovakia with the participation of foreign capital will grow rapidly in conjunction with the relevant law taking effect on 1 January 1989 which allows for contributions of foreign capital exceeding 50 percent to joint enterprises. The greatest potential for joint investment is seen in the machinebuilding, chemical and tourist industries. At present, nine enterprises with the participation of foreign capital exist in Czechoslovakia.

The Council of Ministers of the USSR issued a decree regulating the export of some consumer goods. It states that, effective 1 January 1989 and through the end of 1990, the exports of color and black-and-white TV sets, refrigerators and freezers, washers and sewing machines, clothing and footwear for children, coffee beans and instant coffee and sturgeon and salmon caviar from the USSR are forbidden. A duty of 20 to 100 percent of retail prices will be charged on some goods. This provision affects some household appliances, such as vacuum cleaners, mixers, coffee grinders, irons, sound equipment, photographic equipment and spare parts for cars. Total value of consumer goods taken out of the USSR by one person will not exceed 100 rubles in retail prices.

The previously announced introduction of a uniform exchange rate of the Czechoslovak crown took effect on 1 January 1989. Two rates, for commercial and noncommercial payments, were introduced instead of the many to date. They replaced the old, so-called official rate of exchange of the Czechoslovak crown. Also, other rates of exchange or [rate] premiums affecting both commercial and tourist exchange will be neither set nor published (this would suggest that the so-called hard-currency crown would disappear). The introduction of these two rates is to be the first transitional step on the way to a uniform rate of exchange of the Czechoslovak crown.

As the MTI Agency reports, Hungary intends to discontinue, beginning in 1990, the imports of "Trabant" cars with 2-stroke engines made in the GDR. This decision was made in an effort to reduce air pollution. Losses due to air pollution in Hungary are estimated to be \$267 million annually. [passage omitted]

[No 3, 15 Jan 89 p 2]

[Excerpts]

#### In Poland

[passage omitted] The GUS [Main Statistical Administration] reports that last year 126,900 apartments were commissioned, i.e., 4,100 fewer than in 1987 and 6,800 fewer than planned. In turn, the planned level corresponds to that of the 1960's.

The OPZZ is against the concept of "an anticrisis pact" interpreted as a license to reduce the standard of living. In the opinion of the OPZZ, political pluralism is the foundation for trade union pluralism.

The PAP [Polish Press Agency] reports that a meeting organized by a group of journalists (including those from the Catholic and illegal press) rallying around the chairman of the former SDP [Association of Polish Journalists] Stefan Bratkowski was held. The meeting resolved to petition for the registration of their own association of journalists. [Government Spokesman] Jerzy Urban referred to this as an attempt to split the community.

The Council of Ministers evaluated decrees issued since 1950. Two hundred and seventy-five unpublished decrees and 100 decrees published in MONITOR POLSKI were suspended. Two hundred and fifty-two unpublished and 166 organizational decrees remain in effect. Three hundred government decrees published in MONITOR POLSKI over the past 40 years remain binding. [passage omitted]

A delegation of the Ministry of Trade of the USSR led by the minister Konrad Terekh visited Poland. The development of mutual exchange of consumer goods is envisaged; its value will increase from 80 million rubles in 1987 to at least 350 million this year. Talks on coordinating the machinebuilding industry plans of Poland and the USSR for the years 1991-95 were also held.

TYGODNIK POWSZECHNY (1989, issue 2,) published statistics on the Polish clergy (as of 20 October 1988). In 1988, 8,867 persons received a calling to the priesthood (in 1980—6,285); there were 5,780 (4,949) diocesan seminarians and 3,079 (1,836) seminarians in monastic orders. One thousand and forty-nine new priests were ordained (632 [in 1980]). Altogether there were 24,076 (20,234) priests in Poland last year, of which 18,053 (15,486) were parish priests and 6,023 (4,748 in 1980) members of monastic orders.

At the Swinoujscie port, one of the largest port tugboats, the "Argus," sank. A crew of six was saved. The vessel sank while towing the giant ship "Uniwersytet Jagiellonski" with a cargo deadweight of 52,000 DWT away from the pier. The fuel spilling from the sunken tugboat spread over a space of about two nautical miles within the confines of the port and the Pomeranian Bay.

After several years of preparations, the Wigry National Park came into being at the beginning of this year. The park includes an area of about 14,800 hectares, of which almost 10,000 hectares are the Augustow Forest and 2,700 hectares are water (apart from the Wigry Lake, 45 other lakes and a part of the Czarna Hancza River). [passage omitted]

By a decision of the chairman of the Council of Ministers, five power districts and the National Brown Coal Mining Union were liquidated, and 89 public-utility

enterprises were set up in the electric power industry, and 9 enterprises in the brown coal industry. The large, so-called system power stations, are given the status of enterprises. [passage omitted].

Prof Wieslaw Sadowski, the GUS chairman for many years, retired. Franciszek Kubiak, former first deputy chairman of the Planning Commission and former member of the presidium of the government headed by Z. Messner, was appointed to this position by the chairman of the Council of Ministers.

#### Abroad

[passage omitted] In a new year's message, President Kim Il Sung proposed "to hold a political consultative meeting between leadership-level personalities from the North and the South" in order to discuss the unification of Korea.

In an interview to VILAGGAZDASAG, a member of the Politburo of the Hungarian Socialist Workers' Party, State Secretary in the Hungarian Government Reszo Nyers expressed the view that a preponderance of private capital is inconceivable in Hungary from both the political and economic point of view.

Prime Minister Li Peng announced at the plenary meeting of the government that this year China would reduce its excessive growth rate to a "reasonable level." China will try very hard to limit the scope of investment projects in order "to clean up the economic environment and restore economic order." The prime minister appealed for increased emphasis on agriculture, and especially grain production. To this end, the government resolved to raise procurement prices for grain and cotton.

The 1989 plan of Albania calls for, among other things, a 6.8-percent increase in industrial output. In turn, agricultural output is to increase by 16.9 percent. In the next year [1989] investment will increase by only 2.2 percent. Exports are planned to increase considerably—by 19.6 percent. [passage omitted]

[No 4, 22 Jan 89 p 2]

[Excerpt]

#### In Poland

[passage omitted] On 17 January, a demonstration organized by the illegal NZS [Independent Union of Students] was held in front of the University of Warsaw. A 300-strong group of young people demanded that the union be legalized and the law on college education be revised.

On 16 January, the NSZZ Federation of Construction Employees began a protest action within the framework of a collective dispute with the government over the

unlawful—as the trade unionists see it—restructuring of the remuneration and benefits guidelines for construction employees at exported construction and service projects (resolution No 177 of the Council of Ministers). As the PAP reported, negotiations between the management of the Pabianice Technical Fabrics Enterprise and the leading group of strikers in Pabianice lasted for 3 days; the group demanded, among other things, that monthly wages be raised by 25,000 zlotys per employee and that "Solidarity" be registered. The negotiations did not bring results; consequently, a sit-down strike has continued at the enterprise from 17 January, second shift and on. [passage omitted]

Before the second part of the 10th PZPR CC Plenum, members of the party leadership left for enterprises throughout the country in order to take part in discussions. The already made and expected changes in the party were discussed at meetings with the crews and members of basic party organizations. Also, the Resolutions and Conclusions Commission of the 10th Plenum held a meeting.

The second national forum of employee self-management drew over 200 representatives from 106 enterprises, scientists and guests to Wroclaw.

During the 12 days the law on entrepreneurship has been in effect, 3,396 citizens of Warsaw desiring to start their own companies approached the city and neighborhood departments of industry, trade and services and their counterparts in neighborhood offices.

The chairman of the Council of Ministers nominated Zdzislaw Skakuj to the position of chairman of the State Agency for Foreign Investment created by the law dated 23 December 1988.

The terms of sale of passenger cars produced by the FSO [Passenger Car Plant] in Warsaw result in unjustified benefits to the producer and limit his responsibility for failing to comply with the contract, stated the human rights ombudsman in a memorandum submitted to the minister of finance. Such practices run counter to the antimonopoly law.

It was announced that the 3rd National Theoretical-Ideological Conference would be held between 2 and 4 February 1989.

Effective 1 January 1989, the lowest retirement, survivor and disability benefits of groups I and II went up to 16,500 zlotys a month.

"Let Us Bring the Warta Back to Life" was the slogan of a meeting of governors of 13 voivodships in the Warta basin held on 11 January. The means of implementing the program to restore the ecological balance on the Warta, adopted in November 1987, were discussed.

## Abroad

[passage omitted] A protocol signed at the closing of a session of the Polish-Iraqi Mixed Commission provides for the deliveries of Iraqi oil to Poland this year and a considerable increase in the turnover of mutual trade.

The Polish-Indian Commission for Economic, Trade and Scientific Cooperation, meeting in Delhi, is planning to further develop economic contacts between Poland and India.

The International Bank for Economic Cooperation has existed for 25 years now. Over this period of time, the volume of operations has grown from 32.5 to over 700 billion transferable rubles.

As of the yearend 1987, the indebtedness of the USSR exceeded \$39 billion. After Soviet deposits in Western banks are subtracted, Soviet payment obligations come to \$25 billion. These data were quoted by Deputy Director of the Institute for World Economy and International Relations of the USSR Academy of Sciences, Prof Nodari Simoniya, in an interview to the newspaper SOTSIALISTICHESKAYA INDUSTRIYA.

The volume of Soviet foreign trade in 1988 amounted to more than 132 billion rubles. Soviet exports exceeded Soviet imports by 4 billion rubles.

As the ADN [Agency] reported, the national income produced in the GDR increased by 3 percent according to preliminary estimates. Thus, the planned level of 4.1 percent has not been met. A poor crop due to bad atmospheric conditions is the main reason for slower growth than expected. The past year was indeed highly unfavorable for the GDR agriculture. The shortfall in plan fulfillment was as much as 8 percent. Grain production fell from 11.2 million tons in 1987 to 10 million. The GDR registered an export surplus of 3 million currency marks in 1988.

The value of industrial output in China grew by almost 18 percent in 1988. It is stressed that, on the one hand, the 17.7-percent increment contributed to the market supply while, on the other hand, it caused more tension in the "overheated" economy of that country. Industry has not been successfully subjected to efficient control despite resolute steps aimed at reducing the rate of economic growth. This is shown by quarterly rates of growth of the value of output: respectively, 16.7, 17.6, 18 and 18.8 percent in constant 1980 prices. The value of output of light industry was 19 percent higher than in the previous year. Heavy industry registered 16.6-percent growth. For the first time in the economic history of the PRC, the value of light industry output, as well as its rate of growth, was higher than in heavy industry.

The grain harvest in China dropped by as much as 9.19 million tons compared to the 1987 harvest. Only 393.79 million tons were harvested, whereas the population of

the country increased by about 15 million, reaching 1.1 billion people. According to statistical analysts, the reasons for such poor harvests are found in the serious consequences of natural disasters as well as "the lack of incentives for peasants to engage in grain cultivation" due to low profits this brings compared to cultivating industrial crops. About 4 million tons of grain were lost because of frost, floods and droughts.

At a press conference devoted to the accomplishments of 40 years of the CEMA, a deputy prime minister of the Federal Government and permanent representative of Czechoslovakia at the CEMA Jaromir Obzina was asked by a Czechoslovak journalist whether the reprivatization of a considerable share of the means of production in Poland causes apprehension among other members of the council. He acknowledged that this issue is an internal matter for the Poles, the same as changes in economic structures in Hungary. "In our country, we do not envisage a return to private production, as well as a return to the ownership or leasing of agricultural land (as is the case in the USSR) under any circumstances."

[No 5, 29 Jan 89 p 2]

[Excerpts]

## In Poland

"We have taken a giant step along the same road we have been steadfastly following for many years now," said the First Secretary of the PZPR CC Wojciech Jaruzelski at a press conference on 19 January evaluating the results of the 10th Plenum.

The Central Committee gave a vote of confidence to the supreme authorities of the party (with four abstentions), and, separately from the resolution, adopted a position paper on political and trade union pluralism (32 votes against with 14 abstentions, according to unofficial data by the PAP). In the paper, the committee came out in favor of cancelling restrictions on creating new trade unions under the conditions of a national compact, as well as incorporating into the political system constructive opposition operating in the form of associations, political clubs or centers of sociopolitical thought. Factions and groups of deputies could be their political equivalent in the newly elected Sejm of the 10th term. [passage omitted]

Two days of proceedings of the OPZZ Executive Board (19 and 20 January) ended in the adoption of a resolution outlining positions on the main economic and social problems in 1989 and formulation of comments on the proposals for systemic changes in social policy.

On 20 January, the fourth day of a sit-down strike at the Pabianice Technical Fabrics Enterprise, an agreement on the suspension of the strike until 8 February 1989, with the workforce reporting to work beginning 23



January, was signed. The management of the enterprise undertook to submit a program of actions aimed at improving the economic situation before this time.

Student demonstrations organized by the illegal NZS were held on 19 January in Lublin, Krakow, Bialystok and Warsaw. In Krakow, a delegation of students was received by the First Secretary of the Krakow PZPR Committee Jozef Gajewicz, who stated that the committee is open to all.

A legal ecological manifestation against the construction of nuclear power stations in our country took place in Lublin.

The Presidium of the ZSL Chief Committee petitioned the prime minister to repeal decrees of the Council of Ministers dated 1947 and 1949 which revoked the Polish citizenship of outstanding leaders of the peasant movement Stanislaw Mikolajczyk and Stanislaw Banczyk.

The Presidium of the Main Board of the Association of Journalists of the People's Republic of Poland believes that sharp increases in prices for periodicals, prepared by many publishing houses in Poland, are unacceptable. Compared to the average wage, our press is already one of the most expensive in the world.

Per capita consumption of paper in Poland amounts to 35 kilograms, compared to 81 kilograms in the GDR and 75 kilograms in Czechoslovakia. We are ranked the 50th in the world in the number of newspapers and magazines per capita. (This was mentioned on 20 January at a session of the Sociopolitical Committee of the Council of Ministers).

The National Council of Directors was formed in Warsaw with the organizational support of the Main Board of the Association for Scientific Organization and Management. The goal of operations by the council is to represent the opinions and needs of general directors or chiefs of economic units from all sectors. [passage omitted]

#### Abroad

[passage omitted] The 31st meeting of the Intergovernmental Polish-Soviet Commission for Economic and Scientific-Technical Cooperation was held in Moscow. The signing of an agreement on the use of national currencies in settlements within the new forms of cooperation was a result of the meeting. Also, a Polish-Soviet Chamber of Industry and Commerce was formed which is to promote direct cooperation of enterprises. [passage omitted]

Ministers of Finance and of Industry A. Wroblewski and M. Wilczek visited Italy. A. Wroblewski held talks with the Italian Minister of the Treasury Giuliano Amato on the issues associated with the cooperation of our country with world financial organizations, primarily, with the

International Monetary Fund, the World Bank, and the Club of Paris. The talks were due to the fact that Italy heads the territorial group of the International Monetary Fund to which Poland belongs. M. Wilczek concentrated on the cooperation of enterprises and, primarily, contacts with the FIAT. [passage omitted]

Poland and the EEC coordinated the terms of a trade agreement for 1989. For the first time, the European Community cancelled import quotas for semifinished steel products. In addition, quotas for remaining steel products were raised by 3 percent.

Swedish ecological activists proposed to set up an international foundation for environmental protection, the goal of which would be to provide financial and technical aid to Poland in solving its difficult ecological problems. The headquarters of the foundation would be in Stockholm, but operations would proceed in our country. This draft has already gained the support of other European organizations. A survey has been taken which suggests that government institutions, enterprises, and private individuals are also ready to support the foundation by donated funds. [passage omitted]

Recently, the Institute of Sociology of the USSR Academy of Sciences conducted a brief survey of Muscovites, asking them about the most significant social problems needing a rapid solution. The housing problem was the third one most frequently mentioned. From among 1,136 Muscovites polled, 37.6 percent voted so. Only improvements in the operation of the health care system (50.2 percent) and improvements in the provisioning of grocery stores (44.2 percent) ranked above housing. In turn, fewer selections were made for the following: struggle against illegal incomes (30.3 percent), the need to carry out a reform of retirement benefits (28.2 percent), improvements in the supply of consumer durables (26.1 percent) and improvements in ethnic relations (21.2 percent).

The 1988 grain harvest in the Soviet Union amounted to only 195 million tons. In 1987, 211 million tons were harvested. In 1986, the harvest came to 210 million tons, which was the best volume since the record-setting 1978 crop of 237 million tons.

The U.S. Department of Agriculture reported that the USSR purchased another 530,000 tons of American wheat at subsidized prices. In December 1988, the U.S. proposed the sale of 2 million tons of wheat at reduced prices to the USSR; the Soviet side already purchased 1.34 million tons.

#### Increased CEMA Export Requires Exchange Rate Reform

26000279a Warsaw *RZECZPOSPOLITA* in Polish  
22 Dec 88 p 2

[Article by T. B.: "How To Provide Incentives for Exports to Socialist States"]

[Text] Team VIII of the Commission for the Economic Reform, in a meeting on 21 December chaired by Acting Chairman of the Planning Commission of the Council of

Ministers Stanislaw Dlugosz, reviewed draft systemic arrangements which will regulate trade with socialist states.

Despite the surplus of over 900 million rubles posted in trade with the states of the first payments area [socialist countries] over the 11 months of this year, the danger of failing to fulfill trade agreements for this year with some socialist states, including the USSR, is still present. The failure of the exchange rate to keep up with the growth of domestic prices is one of the causes of this state of affairs. This results in the share of profitable exports being below the 80 percent cutoff set by Resolution No 34 of the Council of Ministers.

Issues of the exchange rate policy took up a lot of time during the discussion in conjunction with, among other things, press reports on the devaluation of the ruble against the dollar. It was noted on this occasion that an eventual change in the rate of the transferable ruble against convertible currencies will cause prices for raw materials, fuels and energy imported by Poland from the USSR to grow considerably. However, in the longer term, such a change should prove favorable for our trade interests, especially due to the current low profitability of exporting some goods.

Prof Jozef Soldaczuk stated that proper economic accountability necessitates using realistic exchange rates and realistic prices. He also touched on the issue of prices for agricultural products in trade between CEMA states. The practice of calculating these prices on the basis of world prices, currently in effect, is erroneous, because world prices are considerably below the cost of production and are depressed by the policy of subsidization in Western states.

In the professor's opinion, the CEMA should use the experience of the EEC in this matter, insofar as the mode of price setting for agricultural products is involved. Otherwise, exports of agricultural products and food-stuffs will become profoundly unprofitable, which, after all, is not in the objectively interpreted interests of the entire commonwealth.

The system of ruble-denominated allowances was also discussed. Pursuant to the draft amendments to the currency law submitted by the Council of Ministers to the Sejm, the principle of selling 90 percent of the rubles generated by exports to the state treasury will apply. Producers will be able to spend the remainder freely, and a considerable share of goods imported from the socialist states will only be available against ruble payments. It is also planned to organize auctions for goods imported from the CEMA states.

Much was said about the need to resolve the issue of guarantees for obligations assumed in trade agreements with socialist countries. These guarantees will certainly differ depending on the goods. It was recognized that, in

the case of goods of strategic significance for the national economy (this means primarily basic raw materials), such guarantees will have to be given directly by the government.

Summing up the discussion, Minister S. Dlugosz announced that proposals on new systemic arrangements would be submitted to the Economic Committee of the Council of Ministers for consideration. These arrangements will become the basis for negotiations with the socialist states on coordinating socioeconomic plans for 1991-95.

#### **Auctions, Exchange Rates: Changes Advocated To Reduce Inflation**

26000321 Warsaw PRZEGLAD TYGODNIOWY  
in Polish No 5, 29 Jan 89 p 5

[Article by Maria Dunin-Wasowicz: "Playing Poker"]

[Text] There is a lot of confusion, and many people do not know whether they should be happy or unhappy, or maybe both at the same time. The fact that very soon an owner of merely a couple dollars will no longer be a criminal from the point of view of the law almost gives us our wings. Hard-currency savings of Poles are estimated to be between several and a dozen or so billion dollars. The new hard-currency law which will, by all signs, take effect on 1 April this year (nomen omen) removes the odium of an economic and political saboteur from the average citizen who is not paid in dollars and does not have an uncle in America. That much we can be happy about.

Problems begin when we start talking about the details. Although, the expression "the Polish zloty" definitely sounds proudly, in reality the dollar, contained for many years in the alternative circulation system, has been and is the first-class currency in the People's Republic of Poland. The dollar is an undisputed yardstick for the value of goods in the national market, like the meter standard in Sevre. Making the dollar an official currency in the Polish monetary market by virtue of the new hard-currency law will only strengthen its position. After all, indications are that the already artificially inflated exchange rate of the dollar will continue to be forced up. Due to this, those who have long waited for liberalized hard-currency law are far from happy now.

The main reason for this is the fact that the abnormal situation hardly ever occurs in the world when a state makes an effort to weaken its currency, even in the name of competitive struggle against the black-market rate of the dollar.

The war began in November 1987, when the banks embarked on purchasing certificates at free-market rates. In mid-June of last year, their sale was also introduced. Over 7 months, the rate of purchases and sales jumped

from 1,350-1,500 zlotys to 3,400-3,500 zlotys. On Thursday last week, 62 individuals purchased 5,356 certificates, whereas the PKO [Polish Savings Bank] sold 12,577 certificates to 29 clients. In the PKO, they say that the interest in certificates is picking up, and the rate will certainly have to be "adjusted." However, the overall result of this undertaking is shrouded in secrecy. Nobody has a right to know how many certificates were bought or sold.

However, the research conducted by financiers suggests that the limited sale of certificates by the banks and systematic raises of rates by them in pursuit of the black-market rate of the dollar have fueled inflation and transmitted it to the entire domestic market. Since the rate of certificates jumped by about 200 percent over one year, and thus outpaced the rate of inflation in 1988 by 120-130 points, prices for, say, cars also had to take off abruptly.

At this moment, the dollar, which, according to the draft hard-currency law, may circulate among citizens as they see fit, and which enterprises will be entitled to purchase at auctions, gains a foothold in the economy.

To be sure, one can hardly determine from the draft law the degree to which the dollar freedom of citizens will advance. However, it looks like it will be associated only with extravagant purchases, e. g., at the Junior in Warsaw, all the more so because hard currency deposited in accounts amounts to 60 percent of all savings.

As far as the enterprises are concerned, the budget will allocate \$2.3 billion to be sold. They will go to the highest bidder.

A concept of auctions has already been tried. Its previous variations proceeded from the premise that the dollar available to producers at the official rate is too cheap. It was still relatively inexpensive for state enterprises and companies which purchased hard currency at auctions in the BRE S.A. [Bank for Export Development]. In the 24 auctions held last year at the BRE, the "ransom" for the dollar was the highest in early April and amounted to 1,030.5 zlotys. In turn, those who postponed purchasing hard currency until December came out ahead. At that time, enterprises paid 678.68 zlotys for a dollar.

At the same time, the dollar rate fluctuated around 3,400 zlotys at the special-purpose auctions (the currency were to be used only for buying specific raw materials) in which usually only craftsmen participated, and with black-market speculators. Luckily, not one of the enterprises buying dollars at the BRE auctions displayed real commercial know-how and resold the dollars at the PKO S.A. auctions. This was, after all, possible. In January, one could have made only 1,898 zlotys per dollar in this manner. A dollar purchased at the BRE at the time was already worth 2,435 zlotys.

The reasons for this low dollar rate of exchange in December merit some consideration. This is plain tax evasion, and with permission by the minister of finance at that. The sellers of dollars were entitled to enter the value of auction contracts in the books as the so-called supplemental profit on the basis of an executive order issued in May 1987. The profit tax on such sums was not transferred to the budget, but remained at the enterprise and was allocated to the development fund. In turn, an enterprise buying dollars entered a number equal to the value of a sale as an emergency loss, and also avoided paying the tax in this manner.

This explanation may be a little bit too complicated, however, the issue is significant in that the minister voided the executive order in effect since May. This happened on 5 January, and the BRE was notified of this decision on 10 January as yet another auction was about to begin. Enterprises, warned about the change in regulations, increased the dollar prices right then and there by 40 percent on the average. Therefore, this time the "ransom" for the dollar came to 2,473.35 zlotys. At the bank, their comment on the event was that everybody would do some more number crunching on this account, and the dollar rate of exchange would certainly go up by another 30 to 40 percent. Nobody knew by exactly how much it would go up. However, it was assumed that this rate would catch up with the one set at the PKO auction. On 18 January, the few craftsmen who decided to take part in it were given an opportunity to pay 4,300 zlotys for a dollar.

In unison the state, private and cooperative producers, endowed with equal rights, say that "this price is a shocker." They believe that thus far everyone who can is abstaining from dollar purchases and halting production in order to wait out the dollar onslaught and save a little money.

Indeed, wherever you go, everyone complains and grumbles about the greed of suppliers: there is virtually no merchandise for which you do not have to make a partial payment in dollars. Let us take a look. There is a private enterprise which is the only producer of aluminum blinds in Poland which have been approved by the Institute of Construction Technology. When they are installed, they retain 18 percent of the warm air in the room. Therefore, the Ministry of Industry, upon verifying the calculations, issued without any difficulty a permit to purchase aluminum at the Konin Aluminum Plant, or at the CHMN [Central Wholesale Office for Nonferrous Metals]. Meanwhile, there was a surprise. Now, \$2,000 will have to be a partial payment for one ton of aluminum, instead of the previously paid \$100. The price of one square meter of blinds will jump 100 percent.

Why is the CHMN so hard on this company? Chief commercial specialist H. Sekula explains: to be sure, the merchandise is not rationed. However, the plant is turning out only two-thirds of the last year's output;



therefore, priorities have to be maintained. Say, enterprises producing drugs or milk in foil for children or even a Polonia company which makes chocolate, because it must be wrapped in good aluminum foil, will receive aluminium for zlotys. Assembly and construction companies should take care of themselves.

So, now we know what is just important, and what is most important. Let us pursue this further. There is a state company which makes good, up-to-date garments. Thus far, 40 percent of the output was exported. Now, when the threads and fabrics cost one-third more and worn-out equipment has to be replaced, it turns out that the only way to cover all outlays is to increase exports. At the enterprise, nobody wants to pay through the nose for dollars.

At the Oil Industry Enterprise, the director states concisely that, unless he receives an adequately large subsidy which will allow him to, say, purchase dollars at an auction, he will raise the price of oil higher than planned. That's it, period.

The government promises that increases in prices for manufactured merchandise will not exceed 20 percent. Meanwhile, calculations in dollars suggest otherwise.

Some argue that that the opportunity to settle in hard currency will only cause a temporary increase in prices. Others argue that an equilibrium price below 3,000 zlotys [to a dollar] is a pipe dream. It will be possible to verify these speculations on the basis of the results of the [next] auction sponsored by the BRE S.A.

This time around, all entrepreneurs will have an opportunity to satisfy their needs at a single event, which will be held once a week, most likely on Mondays. The price of the dollar will be set every time at the equilibrium level. This is a logical arrangement. However, probably in view of the past experience, the draft auction rules will set forth that the price of the currency increases the proceeds of the seller and, conversely, the costs of the buyer. The bank is to get a 0.5 percent commission on the transaction.

It is also planned that the smallest quota which an enterprise can seek at an auction would be \$15,000. [BRE] Chairman Krzysztof Szwarc says that this is the reason why jobber or, if you will, broker companies will operate pooling so-called small purchase orders and brokering dollar purchases.

It is to be inferred that a bank resolving to make such a move desires to protect the rate of the dollar. The experience of auctions suggests that private enterprises push up the prices. Therefore, purchases through a middleman should cool off their fervor somewhat.

It is possible that this will happen. However, these "safety" measures appear to suggest that the quota of \$2.3 billion set by the ministry to be purchased by

enterprises this year is too low compared to the needs. Would it not be better to reach into the pocket of citizens in order to save the currency market? They themselves would gladly invest their savings. Meanwhile, the draft law does not suggest unambiguously that a couple guys, instead of using the auction, may set up a dollar collection in order to purchase, say, equipment to produce the eighth wonder of technology. Both the state and the people involved would profit this way. At the same time, the state treasury would not relinquish its claim to a share of hard-currency retirement benefits and annuities. So, are we dealing with a paradox, or a custom?

This completes one remark on the vision of auctions at the BRE. Let us move on to the next ones. The Ministry of Finance outlines somewhat different plans for the benefit of [Sejm] deputies. First, it intends to put into operation additional clearing auctions. Besides, there is no chance to merge this year the auctions at the BRE and the Commerce Bank S.A. The first one will "rake in" \$650 million, and the other—\$1.6 billion. The currency purchased at the Commerce Bank S.A. will only be allocated for purchasing raw materials of strategic significance to the state.

It is hard to say why there is such a difference between the opinions of the bank and the ministry. It may be assumed that it is due to the optimism of one organization and pessimism of the other on the opportunity to organize an honest-to-God exchange. After all (or "however"), in this event behind-the-desk price setting will have to be discontinued. Recently, Prof Jozef Soldaczuk stated that society must come to believe that prices depend on objective factors rather than the government. Meanwhile, we should face up to the truth: there is little indication that this moderately ideal state of affairs is setting in. We will see who gets the upper hand.

Naked store shelves are a crying manifestation of the poor condition of the economy. Entrepreneurs say that a discontinuation of expropriatory price setting in internal exports is the first brake which can bring to a halt increases in the black-market rate of the dollar. An environment for investment by the entire populace from its own dollar resources is a second brake. If this does not happen, then, in the opinion of some economists, when the dollar becomes a common currency in circulation due to the auction, the demand for it will increase despite everything, and so will its rate of exchange.

It could be that quoting such opinions amounts to seeing this through dark glasses. However, it so happens that we are witnessing economic events which were not supposed to happen. Simply put, projections are often not confirmed by reality, and all that remains later is a headache.

**Proposed Hard-Currency Law Viewed as Inflationary**

26000320 Warsaw PRZEGLAD TYGODNIOWY in Polish No 5, 29 Jan 89 p 5

[Article by Marek Niedzwiedzki: "Two Pockets"]

[Text] A government draft of the new "Hard-Currency Law" submitted to the Sejm is aimed, in the opinion of its preparers, at:

- accelerating the stimulation of operations in all economic sectors;
- boosting the interest of economic units in exports;
- reinforcing the role of the Polish currency by preventing the spread of the use of foreign currency in financial settlements inside the country;
- creating a legal framework for implementing the processes bringing about the convertibility of the zloty into other currencies;
- ensuring the necessary protection of the balance of payments due to the need to service foreign debt;
- creating conditions for using market mechanisms in the hard-currency turnover;
- promoting a free turnover of hard currency insofar as it does not conflict with the above goals.

If we add to this list the task of controlling inflation, as one of the main priorities of the government, then we would get a set of goals which will bring to his knees any economist, be he from the East or the West, when he learns that the black-market exchange rate of foreign currencies in our country on occasion exceeds the official one by a factor of seven or more.

Fortunately, in Poland, which sits astride a cultural watershed, we have either managed to work on our knees or to develop a unique Polish economic school, the graduates of which only give up in the face of greater problems than thus far encountered.

A team of government specialists attempting to translate the above goals and priorities into the language of the law has prepared a quite well-phrased draft of the "Hard-Currency Law" consisting of 34 articles, of which about 30 constitute the main body of the law. After the law is adopted, the minister of finance will become its actual enforcer. The minister, on his own or in cooperation with the minister for foreign economic relations, the chairman of the National Bank of Poland, and, in many cases, the entire Council of Ministers, is empowered to issue more than 15 orders, outlines of principles, guidelines, executive orders and an unspecified number of general and individual hard-currency permits. This

means that the law will not be able to operate individually, without a large number of executive acts, some of which (mainly the mandatory ones) will be of essential significance for all of us.

We can say even now that a publication containing all the regulations which actually amount to the hard-currency law will be a thick volume, with its content intended to change as the needs of the economy warrant. Certainly, this will make using them more difficult. However, I, just as the authors of the draft, do not undertake to point out which of the executive acts are unnecessary or can be incorporated in the body of the law. Nonetheless, I believe that this should be given more thought in the course of legislative proceedings in the Sejm in order to comply, in this case as well, with the good principle of restricting the number of executive acts, and to ensure the stability of legislation on this occasion. I consciously do not make the argument about giving government bureaucrats an opportunity to distort a good law because I believe that this will not happen (what other choice do I have?).

Going on to details, I think that it is worthwhile to examine this draft from at least three different points of view.

All of us, citizens of Poland and other countries, will learn from the law that we may own currency valuables (foreign and Polish currencies, and securities denominated in these currencies, as well as nonprocessed gold and platinum, and so forth). This is not likely to come as a surprise to the citizens of other countries, but, speaking quite earnestly, we, Polish citizens, have finally lived to see a legislative guarantee of ownership of currency valuables. In view of the exactly opposite trends in the USSR, it should be noted that we are witnessing a decision of the same caliber as those previously made about Polish private agriculture or small-scale private ownership of means of production. This very article introduces free circulation of currency valuables, with restrictions on them mentioned in the law. Unfortunately, these restrictions remind us that the zloty continues to be nonconvertible, and the Polish debt is astronomical.

Things will become better for retirees and annuitants who will finally become owners of benefits received from abroad after selling a part of retirement benefits or annuities to Polish hard-currency banks. The share subject to mandatory sale will be set by the Council of Ministers. For other citizens, the changes are not that revolutionary. Along with the classifieds saying "will buy certificates," there will also be legal ads "will buy or sell dollars" placed by exchange offices.

However, the minister of finance still decides whether we will be able to withdraw our currency from the account and take or transfer it abroad in payment for the purchases we need. It is not too bad if he issues a general hard-currency permit, as is the case now. The very fact

that one man in the state resolves whether or not I will be able to actually make use of my property is frightening. In addition, this decision of his will not be subject to appeal to the NSA [Main Administrative Court].

I propose that this be changed rapidly, so that the freedom of requests submitted for execution to the bank be guaranteed. In the extreme case, it could be restricted numerically (there already is a precedent of sorts in the form of the \$500 which may be taken abroad freely). Undoubtedly, this is one of the measures which could possibly facilitate the transfer of these mythical billions of dollars from chests of drawers to banks. It is also necessary to set forth expressly that currency valuables may be allocated for economic operations (directly or indirectly, through purchasing shares or interest) without a separate currency permit.

As interpreted by the law, all individual nationals of the country (persons and corporate persons, as well as organizational units created in keeping with the law which are not corporate persons) engaging in economic operations are economic subjects. Along with natural persons, economic subjects also become owners of currency valuables. For many subjects, the quantity of currency actually in their possession will not increase immediately. However, there is an opportunity for them to have more such valuables because a system will finally begin to work. The more merchandise and services you export, and the more highly upgraded they are, the more hard currency will remain in your account, because the share of mandatory sales of currency set by the Council of Ministers will be reduced.

In combination with the legally guaranteed freedom of transferring foreign currency abroad in order to purchase goods and services in conjunction with the economic operations conducted (without a separate currency permit), economic functionaries would receive a solid tool providing for the introduction of self-financing and self-management in foreign operations as well—as long as nobody other than the enterprise would like to determine which expenses are associated with its operations and which are not.

Economic subjects may also sell and purchase foreign currency at hard-currency auctions, where the market rather than an official will set the rate. It is also possible to sell the foreign currency available to another economic subject at a mutually agreed rate. Other actions, i.e., giving and receiving foreign loans and opening accounts abroad, require a currency permit. It is paradoxical that the freedom of economic circulation of foreign currencies thus created will for a long time remain a fiction with regard to the currencies of our allies and the transferable ruble (which is an unknown quantity). If there is any movement in this sphere, this will only be the beginning of the road. Thus far, we have to forget about monetary circulation and settle for regular goods-for-goods barter.

Foreign persons will find in the draft law some of the regulations which until now have been a part of executive acts. Polish citizens living abroad who have retained [their Polish] citizenship despite pressures by the authorities of the country of residence and, unfortunately, often the Polish authorities, will be exempt from the mandatory exchange of foreign currency for meeting their expenses during a visit to our country. In practice, this provision has applied since 1 January 1989, and it is a serious move giving Polish citizens equal rights regardless of the place of their permanent residence.

Citizens of foreign states will still have to exchange [currency] mandatorily and pay, in the zlotys thus obtained, many dues which have been enumerated in the law for the first time. Along with fees and dues to the state treasury and the courts, foreign persons must pay with such zlotys for hotel services, purchase or lease of apartments and real estate, international transportation, etc.

For foreigners who conduct, or take part in, economic operations in Poland, resolutions by the minister of finance on the [issuance of] deeds of origin of Polish currency simultaneously with the exchange of foreign currency will be very important. This presents an opportunity to use the zloty-denominated part of the profit for personal needs of the shareholder or investor, guaranteed by the law on economic operations with the participation of foreign subjects. The issue of using the zloty for the purposes referred to in the draft law needs to be resolved. These topics have been passed over in silence, and thus left for the minister of finance to decide.

In my opinion, at a minimum it is necessary to state explicitly in the law that zloty-denominated profits generated through legal economic operations will be treated the same as the exchange of foreign currency from the point of view of the hard currency law, and that such profits may also be used by individuals representing foreign legal persons. Such an approach to the matter would give the investors and their representatives an elementary feeling of comfort at least when entering our country in which they have often invested large sums of money.

In the course of legislative proceedings, and subsequently at the stage of presenting the law to society, everyone should be made completely aware that restrictions with similar consequences imposed by foreign states on the Poles are and will continue to be a natural consequence of maintaining the mandatory exchange of currency by foreigners. I only wish that we would not have to learn their currency law in a manner as detailed as they learn ours, because, for a foreigner, it is a law which he continuously encounters in Poland; no wonder that the entire system of our law is judged by it.

Under the provisions of the law, economic subjects which are owned entirely or partially by foreign individuals will have somewhat greater freedom in hard-currency transactions than that envisaged for Polish subjects. Actually operating companies will show whether



this freedom is sufficient in as little as a year. When we analyze in the future publications devoted to the operation of foreign capital in Poland it should be recalled that, beginning 1 January 1989, enterprises founded by investors will be corporate persons. This means that personal property of the investor will be separated from the assets of the company. In effect, operational problems of companies will not be identical with difficulties experienced by the owner, as has been and continues to be the case with foreign-owned small production enterprises.

In summation, it is worthwhile to return to the goals the authors desired to achieve through the law. If its spirit is not buried in a great mass of executive acts, interest in exports will likely increase, though a more comprehensive access to hard currency through auctions, even at a high price, will be an objective influence in the opposite direction. The law will undoubtedly create conditions for using market mechanisms in the turnover of currency and, consequently, will take us closer to introducing the convertibility of the zloty.

There is no apparent opportunity for the law to prevent the expansion of informal use of foreign currencies in transactions inside the country until inflation subsides. Meanwhile, contrary to government priorities, the law will boost inflation rather than restrict it. An artificial separation of currency owned by an individual from that belonging to him in the capacity of an economic subject will have consequences which are hard to predict (unless we now force half a million craftsmen to transform themselves into 1-person companies). My feeling is that those capable of really puzzling it all out will be few and far between.

#### **Government Plans New Draft Law on Rural Land Mergers**

26000290c Warsaw ZYCIE WARSZAWY in Polish  
6 Jan 89 p 3

[Article by Jerzy Pilczynski: "Stalemate on the Rural Land Checkerboard"]

[Text] Will we really be able to feed ourselves? For years this has been one of our major problems, recently recognized by the government as our number one problem. Its solution depends on many factors, including the way in which we manage our land. Our per capita land share is now less than a half-hectare of arable land. Moreover, if we use the conversion factors related to soil quality on which international calculations are based, this land share is reduced to 31 ares.

Since 1981, several laws have been passed to establish a more rational relationship between our people and their land. We found, however, that it is not so easy to convert a theory into a reality that is capable of operating without need for constant direction by lawmakers. And so, discussions are now under way in the Sejm to update one of these laws, namely, the law on land mergers.

The importance of this institution to our agriculture is demonstrated in the example of the village of Jablonki in Nowy Sacz. Just recently there, 1,100 farms yielded a total of 56,000 parcels with an average area of 7 ares. A local farmer calculated that what took him the most time was not fieldwork or barnwork but harnessing and unharnessing his horse. His farm of less than 16 hectares is divided into 154 parcels spread out over a radius of a dozen or so kilometers. A similar farm worked by another village farmer is composed of 244 farm parcels and 43 forest parcels.

We can say this is an abnormal situation and dismiss it, but such abnormal situations exist on more than 2 million hectares. In the Rzeszow Voivodship, the average farm is less than 2 hectares in size and often is composed of more than 20 parcels.

Given such a situation, how can we talk about modern farm management, i.e., the use of machinery and chemical fertilizers, cutting costs and efficiency? Never mind the problems even getting to the fields and the thousands of hectares of wasted boundary strips.

The obvious remedy for this situation is land mergers. It is a method that has been recognized and used successfully abroad. The payback on the costs of this operation comes in 2-5 years and it should result in a production increase of approximately 30 percent.

#### **Is the Current Law Too Democratic?**

The problem lies in the fact that mergers are at an impasse at present. During the postwar period, mergers were carried out on an area of 4.9 million hectares. During the 1970's, 250,000-300,000 hectares were involved in mergers per year. However, since the beginning of the 1980's, mergers have been conducted on only 20,000-30,000 hectares annually. At this rate, we will have to wait about 50 years for this process to conclude on the remaining 2 million hectares.

Why is this happening? There are two completely different explanations. The first one, which approaches the position of the writers of the draft of the updated law, relates this breakdown to the 1982 passage of the draft law on land mergers. The claim is that the law is ineffectual.

This is one of the most democratic laws in all our legislative system. It establishes that the approval of the majority of farm owners or landowners, whose area exceeds half of the arable land of an entire village is needed to initiate a merger hearing. Many formal-legal actions even require resolutions passed by a 3/4-majority of those participating in the hearing.

Such terms are difficult to fulfill. The law gives equal treatment to small farms whose structure the owners do not care to improve and to larger farms where such

improvements are deemed essential. Nor are older farmers in favor of mergers. In addition, it is difficult to gather together everyone who is entitled to participate in decisionmaking, since 30 percent of landowners, on the average, live beyond the bounds of the village where they farm. Given this situation, the government has made proposals to change the law. The most important change lies in shifting the point of voting on mergers from the beginning of the hearing to the end of the hearing, since the merger plan is not formulated until the end of the hearing. This would facilitate initiating the mergers and it also would allow farmers to see the benefits they would receive as a result of the mergers.

The draft law upholds the general principle that the mergers should be initiated upon a motion made by the farmers. However, it allows the gmina manager to initiate a hearing without majority approval where a so-called unmanageable checkerboard land pattern exists. Mergers initiated from the office also may be conducted when village lands have been intersected by highway capital spending projects or for similar reasons.

The new draft law also establishes that the merger area does not have to encompass an entire village. This greatly simplifies things for administrators and those farmers that favor consolidation. The draft law increases the participation of farmers in assessing the worth of lands to be merged and in implementing the principle of this assessment. Many formal obstacles that impeded the smooth implementation of mergers in the past also have been eliminated.

#### 'Peasant Purges'

Sejm deputies were favorable to most of the government proposals. However, they also had some reservations about them, for the second explanation given for the breakdown of the merger process blames the lag not on the new law, but on its predecessor from 1968. Statistical evidence might seem to refute this second argument, but a close look at the statistics shows that a sharp cutback in mergers occurred at the end of the period in which the old law was still in effect. Still it can be deceiving to draw conclusions from statistics, and the causes in this case are not legislative in nature but social and economic.

The 1968 law established mergers initiated from official sources. This led to numerous conflicts and quarrels. More than 40 percent of the complaints made during that period to the central authorities by rural residents concerned errors made in mergers, trading political favors, bribery and various illegal machinations in rural areas. This led to fights, arson, well water contamination, and the like.

The 1968 law gave preference to socialized farming. For example, it contained a regulation that allowed state farms to trade land with private farmers. Thus, if a private farmer had a nice piece of land, he could trade it

for neglected, stony PGR [State Farm] fields in order to reduce his deficit. Some people that settled in western and northern areas experienced this frequently.

The sense of injustice and wrong was piled up on top of injuries harbored from the period of forced collectivization. Add to this the yet unfulfilled promises of land and farm equipment improvement there where farmers agreed to mergers.

Thus, the consequences of this law became one of the most important reasons for social protest in rural areas in 1980-81. Nor does it come as any surprise that one of the first points of the Ustrzyce-Rzeszow talks concerned changing the law.

#### Poor Law or Poor Implementation?

Many Sejm deputies representing rural areas do not share the view that the 1982 law is a bad one. It establishes broad operating possibilities, including the carrying out of mergers from official sources. However, the gmina administration in charge of executing this law did little to propagate these regulations and even less to effect the mergers. This emanated in part from the fear of offending the rural population. It also was caused by a lack of skill in using the new, Western-type methods that bore little resemblance to former dictatorial tactics. It is likewise attributable to the negative attitude of officials to the law itself, which took away much of their authority. Thus, it was not the law that was poor, but its implementation. The results of NIK [Supreme Chamber of Control] studies from 1985 corroborate this thesis.

Then why update the law, asked Sejm Deputy Mieczyslaw Stachura at a meeting of the Sejm Legislative Procedure and Agriculture, Food Management and Forestry Commissions. Are there not more urgent issues for agriculture than this? Other deputies raised similar doubts. Emilia Wcislo suspected that the laziness of the agricultural administration was behind the update. It is a familiar scenario—to solve old problems by creating a new law, or to offer another variation, if implementation is poor, the solution is to set up new regulations instead of trying to improve implementation.

Sejm Deputy Stanislaw Popiela expressed still greater fears. Is it worthwhile, for the gain of a given number of hectares of plowed-up soil, to call forth the spirits of the recent past and terrorize farmers with them?

#### A Quasi-Movement

The regulation on conducting mergers from official sources in the case of unmanageable land patterns evokes the greatest fears in this regard. Exactly what "unmanageable land patterns" means has never been defined and it seems undefinable. It means something different in Wielkopolska than it does in the sub-Carpathian region. Local interpretation again would be up to the officials. The authors of the draft law reassure that initiating a

merger from official sources in no way would restrict the influence of farmers on the merger procedure. What then can be gained by such changes if there is no doubt that the voluntary aspect of the mergers must be preserved. Farmers would still be able to block the final decision. What's more, they would have the right to make a formal complaint to the administration. This would make the entire procedure drag on for months, and perhaps years.

A process of land consolidation is taking place worldwide. In France, for example, farmers themselves are appointing enterprises to deal with mergers. In spite of the stiff charge, it is of benefit to all. In Poland as well, the farmer has a good head for business that overrides his peasant conservatism. But he cannot be encouraged to take the risk if the equipment storehouse is empty, if there is a lack of fertilizers and building materials and if farm production profitability is always in doubt, all of which cause his desire to purchase land to flag.

Instead of being determined to make farmers happy, should we not rather create economic conditions for stepping up farm production, while at the same time eliminating the existing problems in land turnovers? This would be a more natural process, one that is more in keeping with the changes throughout our economy.

The validity of the doubts expressed earlier in this article by Sejm deputies is clearly confirmed in a section of text taken from the argumentation on the draft law in which the statement is made that the enforcement of the law will not entail any financial consequences. The costs of bringing postmerger land under cultivation, including laying out new roads, grading the terrain, removing stones from fields, reclamation and repairing some equipment are estimated by specialists at 50,000-100,000 zlotys per hectare. Thus, a great deal of money is needed that is simply not there in the budget. Without it, the entire land merger movement may become a quasi-movement.

Deputies will soon tackle these issues. At the present time, the draft law is being revised by the government because the law omitted the institution of land exchange. The land exchange referred to is not the type of exchange that once was given a bad name, but the exchange of land between two consenting parties, implemented according to the appropriate administrative procedure. This should be of tremendous practical importance. To date such an exchange is only a sometime possibility implemented according to a very complex civil-legal procedure. Perhaps the government will look with a fresh eye at the entire draft with this opportunity. This seems possible, since the present government is not the same one that sent the draft to the Sejm.

## YUGOSLAVIA

**Causes of, Remedies for Inflation Discussed**  
28000058c Belgrade *EKONOMSKA POLITIKA* in  
Serbo-Croatian 19 Dec 88 pp 18-20

[Article by Tomislav Dumezic: "Unknown Quantities of Inflation"]

[Text] Both politicians and experts assert that curbing inflation has to be the priority task of economic policy next year as well. There is still no concrete, consistent program, however. Does this mean that next year the state will again be left with a choice between two bad solutions—a somewhat slower growth of prices with a faster growth of losses and with a decline in production, or an acceleration of inflation with a relative decline in losses and a stagnation of production?

In the discussions that have been conducted in connection with measures to curb inflation, just as with all other economic policy measures, after all, people usually forget the specific features of the Yugoslav system. They do not take into account the fact that the motives and interests are fundamentally different, and that laws operate, on the basis of those interests, which are opposed to basic economic principles. For that reason, the effects of measures are quite different from those that are achieved in countries with a market economy. That can be seen from the example of interest rates, the rate of required reserves, etc. Increasing the discount rate does not decrease the total demand for money. A decrease occurs only with respect to investment loans. An increase in the amount of short-term loans, at a higher interest rate, automatically causes an increase in the costs of production and operation, and a growth of inventories, which, with a certain lag, brings about a reduction in production and a new growth in expenses and an acceleration of inflation. Increasing the rate of required reserves for commercial banks at the National Bank of Yugoslavia [NBY] and limiting credit potential leads to an increase in deferred payment and an increase in mutual borrowing among economic organizations. This increases illiquidity, and slows the turnover of capital, which also influences an increase in prices and inflation.

It is claimed that the restrictive monetary policy has not led to a decrease in inflation merely because it really has not been restrictive, because the measures limiting the money supply and the measures to limit the nominal growth of personal incomes and the growth of budgetary revenues and revenues from public services have not been consistently implemented. It is certainly true that restrictive measures have always been abandoned, especially since this October, both in the monetary sector and in the sector of the budget and personal incomes. What would happen, however, if the established limits were strictly adhered to? There would not be any bankruptcy of individual economic organizations and a change in ownership, because social property simply cannot change owners. There would be an increasingly more



rapid collapse of the entire economy, primarily in the productive branches—agriculture, industry, and construction. Likewise, there cannot even be a reduction in the number of employees in the socially owned sector of the economy, regardless of how much production is reduced and regardless of the actual needs of economic organizations with respect to the number and structure of their employees. When enterprises have primarily social-welfare purposes, the economic laws which operate in our economy as well have quite different effects. Consistent restrictive policy measures lead to a gradual collapse of the entire economy instead of contributing to a change in ownership, the abandonment of unprofitable production, and the development of new types of production, new products and processes.

It turns out that it is necessary to take into account two things: one is the economic system, which must be changed in directions that make it possible for the functioning of economic laws to result in the inevitable application of economic principles (profitability, productivity, and economy), and the second is current economic policy measures that must be coordinated with an economic system that really functions. The application of economic policy measures that yield certain positive effects in market economies result under our conditions in quite different and predominantly negative consequences.

#### Causes of Inflation

The prevailing opinion, which was also expressed at the 8 December conference in Ljubljana on reducing inflation, is that the main cause of inflation is an expansionary monetary policy. Since inflation is a monetary phenomenon (a surplus of money), it can be reduced primarily through changes in the monetary sector, i.e., the application of a restrictive monetary policy, which also presupposes a high level of financial discipline. Restrictions in the monetary sector are achieved through the classical instruments (a policy of expensive money, or high interest rates, and a higher percentage of required reserves for commercial banks at the central bank), as well as by limiting bank investments. The effects of those measures have not been particularly positive to date (there has been a decrease in production, along with more rapid inflation, a decline in real personal incomes, strikes, and other ways of manifesting social dissatisfaction). It is precisely for that reason that those measures have been abandoned. Would their rigorous implementation nevertheless lead to a reduction of inflation, regardless of the high price that would be paid?

Naturally, there are also several auxiliary sectors that can contribute to reducing inflation. We are primarily thinking of the entire sector of public spending—the budgets of the sociopolitical communities and the budgetary financing of public services. In particular, restrictions in the public spending sector have been absent this year. There has even been a real growth in budgetary revenues and in the revenues from some public services. When

one bears in mind the fact that in real terms public expenditures also grew during the two previous years, it can be asserted that even minimal anti-inflationary measures in this sector have been completely absent.

Personal incomes are also included among the basic causes of inflation. In the Yugoslav economy, personal incomes have a considerably higher share in inflation than in countries with market economies. Specifically, this has to do with the fact that enterprises do not have the opposing interests characteristic of capitalist firms, in which the employers are interested in a higher profit and lower wage expenses. In our country, everyone (both workers and enterprise managers) is interested in increasing personal incomes; the result of this (in view of the absence of qualitative changes in the economy of operation) is an increase in prices. The nominal anchor established through a programmed inflation of 90-95 percent was abandoned in October, personal incomes were considerably increased, and inflation as well, and so it is expected that this year it will amount to 250 percent.

Another cause of inflation is the high losses accumulated in the financial system, primarily in the NBY, in the form of uncovered negative exchange rate differences for part of the foreign credits and most of the population's foreign exchange savings. A solution to this problem is seen in a statement of the public debt, provided that real sources (the federation budget) would be found to cover current expenses associated with the public debt (the payment of interest on credits and interest on the population's foreign exchange savings).

The surplus in trade with the clearing account countries (primarily the USSR, where the surplus now amounts to about \$2 billion) is one of the sources of inflation. This specifically has to do with the fact that the dinars have been issued, imported goods have been lacking, the credit is interest free, and it was not given from capital accumulation. A reduction in the deficit presupposes seeking an acceptable solution for both sides (a reduction in exports, of course, does not suit Yugoslavia). One of the possible solutions is the introduction of a "waiting room" (Ante Cicin-Sain), which means that the exporter would wait to collect payment until the surplus fell to the agreed-upon level of a swing credit. Perhaps another similar solution could also be found: the formation of an exchange rate for an accounting dollar in the foreign exchange market.

The daily fluctuation in the exchange rate also accelerates inflation. The discrepancy between the export and import exchange rates also has the same influence (the import rate is considerably higher). A onetime devaluation is being proposed, with the exchange rate being held at an established level (through interventions by the NBY in the foreign exchange market, import regulations, incentives, etc.).

The economy's losses are a persistent source of inflation. In the first 9 months of this year, the losses amounted to 3,507 billion dinars. That is a surplus of money, or uncovered consumption. In countries with market economies, losses do not bring about faster inflation, because a firm's bankruptcy means only a change of owners. The accounting system, and especially the system for revaluing expenses, raw and other materials, unfinished production, and finished products and goods, also spurs inflation. That is proven by the change in prices since the application of the new accounting system. The kind of revaluation system that is used here completely prevents the sale of products, because there is a shortage of money. That shortage is neutralized primarily from the surplus in trade with the clearing area and from the losses of economic organizations.

### Reducing Production a Necessity?

The prevailing opinion is that inflation cannot be significantly reduced without causing a decrease in economic activity. In our country, however, stagnation and a decline in production have been in existence for 8 years now, but inflation has been growing.

The stagnation of production has existed since 1980. That was also when the decline in the real personal incomes of employees, except for 1985 and 1986, began. Inflation, however, constantly increased, with the exception of 1982, which was significant for its shortages and firm administrative price controls.

Public spending declined in real terms from 1980 to 1985. When there was also a relaxation in the sector of personal incomes in 1986, however, when there was a reduction in outlays for oil imports and for paying interest on foreign credits (because of the drop in the price of oil and the decrease in interest rates in the money market), public spending was increased by 9 percent in real terms. Last year, the social product declined in real terms by 1 percent in comparison with 1986, and the average real personal income by 7 percent. Public spending, however, increased by 4 percent in real terms. That tendency of the relative and real growth of public spending was continued this year as well.

### Other Possibilities

Persistent attempts are made to prove that monetary policy is not restrictive. It is not even difficult to prove, because under conditions of high inflation restrictions on the money side simply do not exist. The issue, however, is whether a real and consistent restrictive monetary policy would contribute to a reduction of inflation, or whether it would primarily lead to a decrease in production, a further decline in real personal incomes, growing social dissatisfaction, etc.

If monetary policy is assessed on the basis of investments, then it actually is restrictive. The rate of gross investment, which was between 35 and 39 in the second

half of the 1970's, has fallen to less than 20 today. When investments were highest, an average of 50 percent of their financing came from credits. Today, the share of credits in financing investments is only about 10 percent. In view of the decrease in the volume of investments by about 50 percent, it turns out that the volume of investment credits has now been reduced by as much as 90 percent.

Credits for working capital are being increased. The new accounting system has not led to an increase in economic organizations' own working capital. The tendency toward a reduction in the participation of the economy's own funds in financing long-term working capital has continued. For that reason, there has been an increase in the volume of credits, inflation has also increased (partly because of the new accounting system and revaluation), and the expenses of credit interest, interest rates, inflation, etc., have also increased.

According to the data from the periodic account for the January-September 1989 period, the economy's total interest expenses were 26,327 billion dinars. During this period the economy also had interest earnings, such that the net outflow of money from the economy into other sectors as a result of the interest paid was 15,536 billion dinars. The net personal incomes paid during this period only negligibly exceeded this amount. All of this leads to the conclusion that a solution to this problem cannot be found in changing interest rate policy. There are marked pressures for a fundamental reduction in interest rates for credits. That can lead to a certain relative decrease in interest expenses for that reason, but at the same time it causes several other far more unfavorable consequences: savings interest is reduced, the transfer of the population's dinar savings into foreign exchange increases, the amount of credit used by an enterprise increases, thus leading to an increase in inventories, a reduction in turnover, etc. Not even an increase in interest rates will provide essentially different final effects. It follows from this that the essence of the problem is the mistaken structure of enterprises' property. The enterprises, partly because of negative interest rates on domestic investment credits, have become owners of fixed capital, but they have also been left without the money of their own required for financing current operations. This problem can be solved only through a change in ownership. Since socially owned property is not property in the true sense of the word, its transformation for the time being is also impossible. Certain measures, which would yield at least temporary results, could be carried out even today. Also inevitable are restrictions in the sector of public spending (a real reduction in the budget) and a reduction in the already existing rights to widespread free use of the services of the so-called public services. Even in the sector of personal incomes, under present conditions, solutions can be found that are considerably better than the nominal anchor and the distribution ratios, regardless of whether they are established by law or by social compact.

**Housing Construction Policies Criticized**  
*28000058b Belgrade EKONOMSKA POLITIKA in  
Serbo-Croatian 19 Dec 88 pp 13-14*

[Article by B. Ostojic: "Beginning of the End"]

[Text] The final balance of the construction of socially owned apartments this year is unknown, naturally, for justifiable reasons. Nevertheless, it can be stated fairly reliably that the figure will be 30-35 thousand new units. It can also be assumed that the breakdown of the newly built apartments will not vary from the usual limits. The average apartment will thus have about 60 square meters. All the predictions about the price of new construction range between 2 and 2.5 million dinars per square meter, i.e., about \$500, which can be considered a fairly optimistic view, since a decent apartment can be purchased virtually nowhere for that amount of money on the so-called free market. Through simple multiplication, one can arrive at the conclusion that at least \$30,000 will have to be paid for an ordinary socially owned apartment this year, and that the entire 1988 contingent of these apartments will cost at least \$1 billion. If the same methodology, with the same values, is applied to all of the 1.6 million socially owned apartments that exist in Yugoslavia today, one obtains the sum of about \$60 billion. That is nearly triple the amount of Yugoslavia's current foreign debt, for instance...

**At the Expense of Capital Formation**

What is the purpose of this calculation? Even though it is, we can admit, quite roughly done, it demonstrates the magnitude of the amounts that have been paid to date to maintain the housing policy that is still in effect. Furthermore, it can serve rather well as an argument for those who are still trying to prove that it is precisely the housing policy, as it is, that is one of the sturdiest foundations of the long-known and clearly recognized inefficiency of the overall economic system. The above-mentioned amount of money has been withdrawn from social capital formation (from the economy, in the final analysis). It is even unimportant whether it has been taken away or voluntarily conceded. The essential thing is that for the most part the money has not been returned where it came from, and instead has remained in the pockets of those benefiting from socially owned apartments. This "achievement"—as has long been suspected, and is now being stated openly—is a result of the fact that the beneficiaries have had the exclusive right to make decisions about how much will be paid to benefit from socially owned apartments. Let us say that even the issue of whether that right has been usurped or has been legitimately acquired is unimportant. What is not beside the point, of course, is the consequences. On this occasion, it will be sufficient to cite a few of the most fundamental ones. In the first place, for an amount approximately equal to the total cost of the socially owned apartments, i.e., for a reduction in the funds from which the economy's expanded capital replacement

could be financed, demand capable of payment has been increased. To put it simply, side by side with the (forced?) decrease in the possibilities for investing in an increase in production, there has been an increase in the possibilities for spending, naturally, by those who are not paying the full amounts for their housing. Clearly, the result can only be a significant contribution by housing policy to the overall disruptions of the economic (and political) system. In the second place, the token price for using a socially owned apartment has necessarily had a disincentive effect upon the involvement of private money in the housing industry. Only those who could, and did not have any other choice, have used their own money to build. Furthermore, a considerable part of the creativity and energy of those employed with socially owned means of production has been expended in the struggle for a place in firms' housing lists, instead of being invested in increasing productivity and enhancing business operation in general. The motive for such behavior is quite understandable. No dedication in the workplace can bring a personal income equal to the value of an apartment obtained for use. In the third place, the very possibility of being able to get an apartment somewhere without great (financial) strain has been an integral part of somewhat more general circumstances that have led to considerable migrations toward large urban centers. The pressure thus created has led on one hand to an increase in unproductive or in the best case extensive employment, while at the other extreme the problem of a shortage of those capable of work has occurred. At the same time, once an apartment has been obtained, or it is possible for one to be obtained, there is a fundamental reduction in the mobility of the labor force, i.e., there is direct prevention of the establishment of market relations in this sector. Finally, the fact that socially owned apartments are financed by fiscally gathered, and thus "anonymous" money, opens up wide the possibilities for an unrealistic growth of prices for new construction.

Virtually no one in the long chain of participants in the construction of socially owned apartments has a clearly defined interest in lowering the price. The price of a newly constructed square meter includes not only expenses that do not fit there by any logic, but also the cost of the poor work of all those who are essential in the construction process. This is at least essential because it (artificially) raises the prices of already built apartments as well, thus not only preventing any sort of turnover in the market for apartments, but also making the relations (prices) in the still illegal subletting market unrealistic.

**Specter of Being Broke**

It is probably not possible to maintain such a housing policy, even if one wanted to, for at least two reasons. In the first place, it has turned out that the number of new candidates for apartments on firms' housing lists has always been higher than the number of newly built apartments. It is estimated that 600,000 households are now without apartments. If this year's volume of social apartment construction were to be maintained, nearly 20



years would thus be necessary just to provide for those who are now homeless. Clearly, during that time the number of new "fighters for a roof over their heads" would increase several times over, i.e., the problem of the apartment shortage would only be exacerbated. In the second place, the expectation that even this year's pace of the construction of socially owned apartments could be maintained, under unchanged circumstances, is quite unrealistic. The circumstances are such that the day when the system will not be able to function is quite close, simply because there will not be any money to finance it. From what has been said so far, it should be clear that the expenses of building socially owned housing are such that they seriously threaten the earnings of those who bear them. The real reduction in the "free" income of the economy, and the unrealistic increase in the price of floor space, can only lead to the number of new housing starts becoming zero (soon). Furthermore, it is essential to repeat that it is part of the system and that the decline in income also means a decline in personal incomes at the same time. The involvement of personal financial resources in a future (assumed) situation—with a "zero" result—can hardly change anything. Why? Simply because the personal dinars that can be invested in the housing industry, as in the past, will be in the hands of those who do not need apartments, who have them or have the right to rent them cheaply. The rest will give their surplus money, as in the past, to the

owners of apartments or those with rights to an apartment, paying in real terms increasingly higher rents for subletting.

Apparently, the problems can be solved in only two ways: either by nationalization (redistribution), or by the affirmation of economic relationships, primarily in the area of use of the housing inventory (which would also put the production system on a sounder footing). There is no third alternative.

No matter how strange it sounds, the first alternative is being considered quite seriously in some areas (there was a recent failure of a plan to change the Serbian republic law on housing relations, that provided for taking socially owned apartments away from those who owned vacation homes), while the second has been discussed only as a condition without which housing policy cannot be reformed. Reluctance to carry out this condition in practice, however, has not at all prevented reformers from planning, under the present circumstances, senseless systems for private investments in the housing industry: by stipulating a personal share in obtaining a socially owned apartment (at least 5 percent of the construction cost), by introducing the possibility of purchasing a socially owned apartment that is already being used (the buyer would have to be the user), the possibility of obtaining the right of joint ownership (at least 10 percent of the revalued value of the apartment), etc.

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